

CRANFIELD UNIVERSITY

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**The Impact of Regulation
on the Formation of Entry Strategy of Multinational Banks
- A Case of Foreign Investment into
the Chinese Banking Industry**

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Supervisor: Professor Joseph G Nellis

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Abstract

The purpose of this thesis is to both explore and explain the formation of entry strategies of the multinational banks (MNBs) investing in the People's Republic of China. The research is driven by an interest in understanding the strategic behaviour of the MNBs as they are presented with huge investment opportunities but potentially higher risks caused by the market and regulatory structures. The study explains the differences in entry strategies of the MNBs and explores the causes of convergence in their entry behaviours.

The study is grounded in the eclectic theoretical paradigm based on which a conceptual framework is developed to incorporate three enabling factors for the competitive advantages of the MNB in the local market. The three enabling factors are also termed the OLI framework with regard to ownership-specific advantages (O), location-specific advantages (L) and internalisation-specific advantages (I). Correspondingly, three areas of literature are focused on in this research, namely, the resource-based view, the institutional theory and internalisation theory.

The research design consists of in-depth case studies of ten multinational banks. The cases are analysed based on strategic entry decisions in four dimensions, namely, the entry motive decision, the entry mode decision, the management control decision and the marketing orientation decision. The cases are explored by means of semi-structured interviews of thirty-five senior bank managers based in the local branch in Beijing and/or Shanghai in China.

Four patterns of strategic entry decision are identified through this research. Using pattern-matching techniques of analysis, the research provides evidence to support two research propositions; they are: i) the strategic entry decisions of the multinational banks in China are different. The differences are mainly attributed to the differences of the bank specific resources and the existing strategies of the parent banks; and ii) under the coercively imposed regulatory conditions and the underdeveloped market conditions, the strategic entry decisions of the multinational banks in China have tended to converge.

This thesis contributes to existing theoretical, empirical and practice literature. It integrates multiple perspectives in applying the OLI framework. The developed OLI framework both explains and explores the formation of entry strategy of service multinationals. It emphasises the strategic behaviour of the MNB and provides insights to the MNB regarding how to integrate strategic entry decisions with operation and behaviour. It also provides the regulators with the way to assess the impact of regulation on competition structure.

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From a background with little knowledge of banking, economics and business strategy, I must confess that the idea of doing a PhD in such a cross-disciplinary field did seem daunting at first. I owe thanks to many people who have contributed so much to this research.

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Cranfield, July 16, 2007.

Dedicated to my family

Mum, Dad, and Ying

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List of Abbreviations

ABC	Agriculture Bank of China
AMC	Asset Management Company
ASEAN	Association of Southeast Asian Nation
BOC	Bank of China
BSR	Bank-specific Resource
CBA	China Banking Association
CBRC	China Banking Regulatory Commission
CCB	China Construction Bank
CCB	City Commercial Bank
CIRC	China Insurance Regulatory Commission
CNAO	The National Audit Office of the People's Republic of China
COE	Collectively-owned Enterprise
CSRC	China Securities Regulatory Commission
DC	Developed Country
EEC	Eastern European Country
FBU	Foreign Business Unit
FDI	Foreign Direct Investment
FFI	Foreign Financial Institution
FIE	Foreign Invested Enterprise
Hong Kong SAR	Hong Kong Special Administrative Region
IAC	Insurance Association of China
IB	International Business
ICBC	Industrial and Commercial Bank of China
IDP	Investment Development Path
IPO	Initial Public Offering
IR	Integration-Responsiveness
ISA	Internalisation-specific Advantage
JSCB	Joint Stock Commercial Bank
LDC	Less Developed Country
LOF	Liability of Foreignness
LSA	Location-specific Advantage
MNB	Multinational Bank
MNE	Multinational Enterprise
MOF	Ministry of Finance
NBFI	Non-Bank Financial Institution
NDRC	National Development and Reform Commission

NPC	National People's Congress
NPL	Non-Performing Loan
OLI	Ownership-Location-Internalisation
OSA	Ownership-specific Advantage
PBOC	People's Bank of China
POE	Privately-owned Enterprise
RBV	Resource-based View
SAC	Security Association of China
SAFE	State Administration of Foreign Exchange
SBU	Strategic Business Unit
SCSC	State Council Securities Committee
SDPC	State Development Planning Commission
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SOCB	State-owned Commercial Bank
SOE	State-owned Enterprise
WTO	World Trade Organisation

Chapter 1 Overview

1.1 Motivation

The research is based on observations of the fast development of the economy in the People's Republic of China and the development of its banking system. Particular interest is paid to multinational banks (MNBs) investing in this emerging banking market. Among many challenges faced by the MNBs, the issue of how to configure opportunities and risks in their entry decisions has raised extensive arguments in academia, for practitioners and policy-makers.

The investment decisions, termed strategic entry decisions, or in general the entry strategy in this research, are concerned with issues of why the MNBs need to enter into China, when to enter, which entry mode to choose, what products to offer to the local market, how to control the operation and how to market the services.

In making those decisions, the MNBs are confronting two seemingly conflicting external factors. One force is represented by factors from the banking market. The other is represented by factors from banking regulations. Both influence the making of the strategic entry decisions of the MNB.

In terms of the impact of the banking market, the introduction of foreign banks is a part of the banking reform programme started in 1979 in China. Foreign capital from or through international banking is expected to bridge the gap between domestic savings and investment. More importantly, foreign banks that operate in China are expected to help enhance competitive efficiency and improve the structure of the country's banking system (Leung, Rigby and Young, 2003). The underdeveloped local market in China

gives the MNBs a chance to exploit their existing advantages. Because MNBs are distinct in their resources and global strategies, the entry decisions they made are believed to be different.

In terms of the impact of regulations, both explicit and implicit market barriers are employed by the regulators to protect the infant domestic banking system in China. In fact foreign banks in China “may be too constrained to inject desirable competition into the banking system” (Goodhart, 2003:140). As a consequence of regulatory constraints, the costs and risks of operation are increased for the MNBs (Leung and Young, 2002). In order to reduce the cost of entry and expansion, the MNBs seem follow each other and have adopted similar approaches. They mainly operate in the branch mode and seem to conduct similar banking activities.

The above observations present two conflicting impact on the formation of entry strategy. On the one hand, banks are assumed to have different competitive advantages and devise entry strategies to sustain competitive advantages in the local market. On the other hand, banks are found to respond in similar ways to the regulatory constraints which generate homogeneous strategic decisions. However, the joint effect of the above two dimensions of impact on the entry decision has been hardly investigated – it is largely unknown to what extent the internal factors cause different entry decisions, and it is less understood to what extent the external factors, in particular, the regulations, rule out the distinct characteristics of the individual MNB.

In this thesis, the seemingly homogeneous strategic entry behaviours are assumed to be either true only for the time being, or not true because no in-depth investigation has been made yet to uncover the reality. Theoretically, the mechanism which governs the formation of entry strategies of the MNB in China has not been established. There is a lack of theory to explain the entry decisions of the MNB in this specific context. There

is no guidance on how to differentiate entry strategies when the concept of entry strategy is not inclusively defined. Leung, Rigby and Young (2003:23) confirm the above observation and comment that “empirical research to explain the growth of foreign banks operation in China has been sparse and quite simplistic to date”. This research has been conducted to search for a more comprehensive explanation of the entry strategy of the MNB. The study is essentially exploratory.

1.2 Research Aim and Questions

The aim of this PhD research is to both explore and explain the formation of entry strategies of the multinational banks investing in the banking market in China. This aim is translated into a main research question of “*Why are the multinational banks in China different?*”

This question is in turn translated into three sub-questions as follows:

- 1) *Are the entry strategies of the multinational banks different in China?*
- 2) *If the entry strategies of the multinational banks are different in China, why?*
- 3) *To what extent have regulations impacted on the entry strategies of the multinational banks in China?*

The three questions are interrelated. The first research question focuses on the strategic entry decisions, trying to explain the meaning of different dimensions of entry decisions, and to prove whether and how they are different. The second and third research questions try to explain why entry strategies of the MNBs are different or similar. Both questions are answered with an exploratory approach that has been hardly adopted by previous studies on the banking industry in China.

1.3 Research Gaps

Both theoretical literature and empirical literature reviews were conducted in this thesis. This study applies the eclectic paradigm (Dunning, 1977; 1993) to the study of formation of the entry strategies of the MNB in China. The eclectic paradigm provides a framework that appeared to be most applicable in the study of multinational enterprises (MNEs) as well as multinational banks from both economic and behavioural theories.

Following Dunning's (e.g., 1988, 2001) own comments on the eclectic paradigm, the gaps are grouped under four categories: theoretical, empirical, contextual, and substantive. In this study, gaps are defined by the limitations found when the eclectic framework is applied in practice. The theoretical gaps refer to insufficient explanation regarding how to integrate multiple theoretical perspectives together in one conceptual framework. Empirical gaps refer to the lack of applying the framework in a particular subject – in this case the formation of entry strategies. Contextual gaps refer to the generalisability of the findings of existing research. Substantive gaps refer to the lack of managerial understanding in practice.

In terms of theoretical gaps, the study integrates three theoretical bases, namely, resource-based view (RBV), institutional theory and internalisation theory to pinpoint the relationships of three enabling factors in the OLI paradigm, namely, the ownership-specific advantages (OSAs), the location-specific advantages (LSAs) and the internalisation-specific advantages (ISAs).

In terms of empirical gaps, there are few empirical studies when we directly apply the OLI framework to study the entry strategy and to explain the formation of that strategy. Using a qualitative approach and in-depth case studies to provide more consistent findings regarding the entry strategy, as defined in this research, is rare.

In terms of contextual gaps, most of the studies have been based on the MNBs which have invested in the U.S. market. Because of different market and regulatory structures, the context-specific conditions cannot provide direct reference to the study of the MNB investment in China. Given both the huge market potential and the opportunities and risks from both the market and the legal environment, the research setting based on the market in China is expected to bring insights to the existing literature.

In terms of substantive gaps, in the past entry strategy has been defined as being associated mainly with entry mode decisions. The other parts of decisions, especially decisions for strategy implementation, including the management control decision and the marketing orientation decision have hardly been considered together with the entry mode decision and the entry motive decision. An integrated approach to defining the concept of entry strategy is expected to provide more managerial implications from this research.

1.4 Conceptual Framework

The OLI framework (Dunning, 1977) is adopted to develop the conceptual framework in this thesis. The benefit of using the OLI paradigm is that it provides a general framework embracing both internal and external factors. OSAs and ISAs are firm-specific and LSAs are location-specific (Dunning, 1993). The conceptual framework is developed based on several assumptions as below.

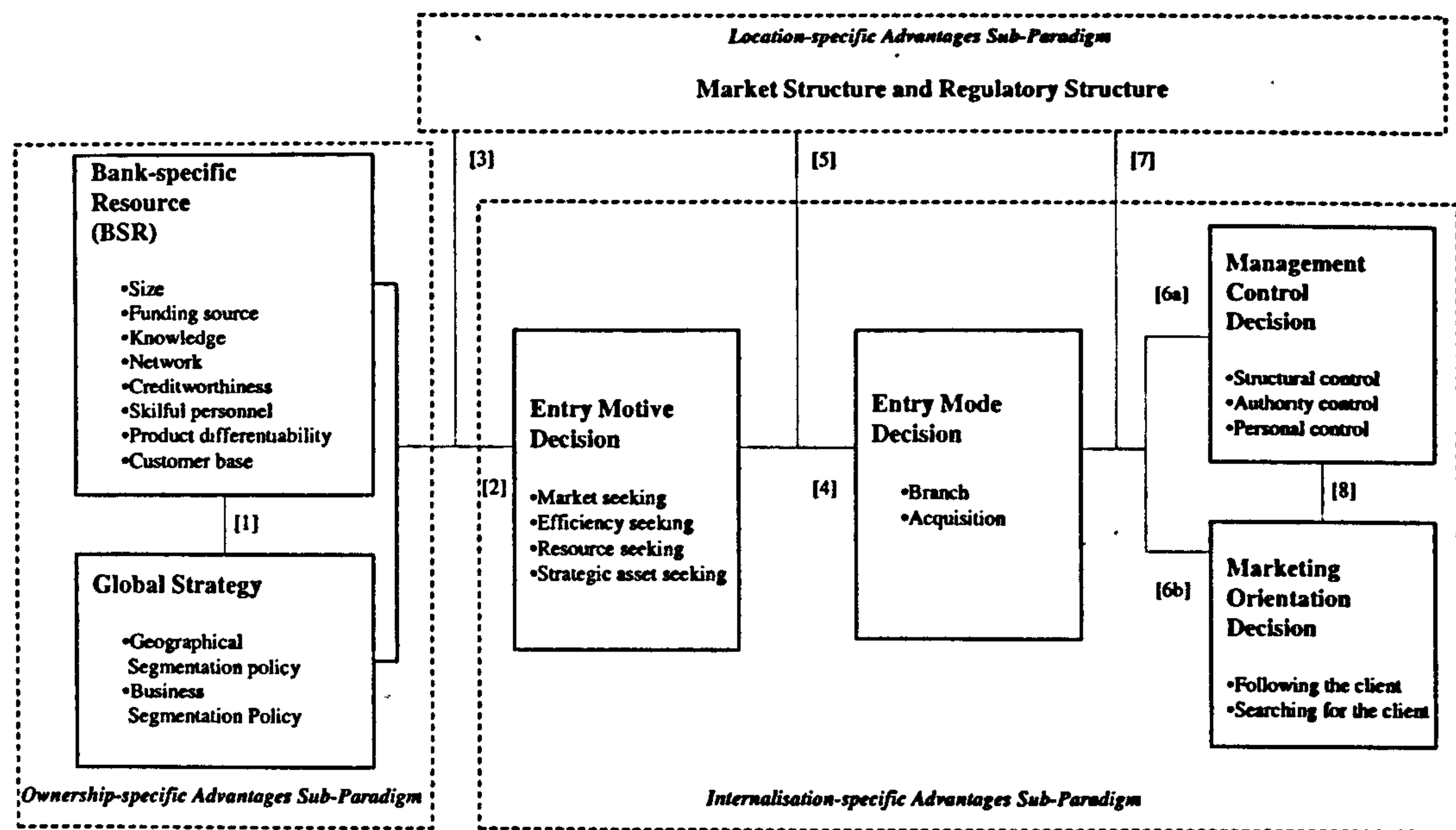
First, entry strategy and expansion/growth strategy are treated as one integrated process in this study. The entry and expansion are regarded as inseparable behaviours in the internationalisation process. According to Welch and Luostarinen (1988), internationalisation is defined as the process of increasing involvement in international operations across borders.

Second, entry strategy has meaning in two areas, the strategy contents and the strategy processes; contents mean different dimensions of strategic entry decisions and strategy processes mean entry strategy is both formulated as a deliberate strategy and formed under the emergent factors in implementation (Mintzberg *et al.*, 1998).

Third, the formation of entry strategy is assumed to be for the purpose of sustaining the competitive advantage in the local market. The local operation of the MNB is assumed to be a balance between integrating with the parent bank and responding to the local markets (Prahalad and Doz, 1987).

To achieve the aim of this research, answer the research questions and address the identified research gaps, a conceptual framework is developed, as shown in Figure 1.1.

Figure 1.1 Conceptual Framework



Note: Dashed line frames indicate the OLI paradigms, namely, ownership-specific advantages (O), location-specific advantages (L) and internalization-specific advantages (I).

The conceptual framework is established with the consideration of two broad traditions, i.e., the “variance theories” and the “process theories” (Langley, 1999; Meyer and Gelbuda, 2006). To answer the three research questions in this study, both the variance

and process approaches are adopted in developing the conceptual framework.

Variance theories are adopted in order to explore factors that determine the entry decisions of the MNB and the relationship between those factors and entry decisions. Process theories are adopted for the purpose of explaining the formation of entry strategy of the MNB. In specific, the evolution of the market and regulatory conditions of the banking industry in China are studied.

Based on the conceptual framework, two propositions are developed to guide the research analysis. These propositions are:

Proposition 1: The strategic entry decisions of the multinational banks in China are different. The differences are mainly attributed to the differences of the bank-specific resources and the existing strategies of the parent banks.

Proposition 2: Under the coercively imposed regulatory conditions and the underdeveloped market conditions, the strategic entry decisions of the multinational banks in China have tended to converge.

1.5 Research Contributions

By both exploration and explanation of the formation of entry strategy of the MNBs in China, this study contributes to existing theoretical, empirical and practice literature in several ways.

First, the findings of this study have theoretical implications for an integrated view of resource-based view (e.g., Barney, 1991), institutional theory (e.g., Scott, 1995) and internalisation theory (e.g., Buckley, 1988; Rugman, 1980, 1986). Second, the study

contributes to research by applying the developed conceptual OLI framework to the study of formation of entry strategy, in a banking sector with an emerging but highly regulated context. Third, this research contributes to practice by providing insights as to how to integrate strategic entry decisions with operations and behaviour and, to know their strategic positions and those of competitors.

1.6 Research Approach and Thesis Structure

Based on economic and behavioural theories, this study provides a detailed explanation of the formation of the entry strategy of MNBs in the emerging banking market in China. The thesis structure closely follows the research approach and it consists of ten chapters which are now briefly described.

Chapter 2 overviews the banking market structure in relation to foreign banking in China. It addresses that the foreign direct investment (FDI) in the banking market in China has three parties involved in the process: the host government, the foreign banks, and the local banks. The motives to become involved in the banking FDI process are reviewed taking an evolutionary approach. The result of the analysis implies potential conflicts in the motives of FDI from the three players.

Chapter 3 overviews the regulatory framework in relation to foreign banking in China. It highlights the key regulatory constraints in terms of the entry mode control, general control on the business development of the MNBs and special control on the corporate lending business of the MNBs in particular. The evolution of regulation with regard to foreign banking implies that similar strategic entry decisions might be chosen by the MNBs under the impact of regulation.

Chapter 4 reviews the economic and behavioural theories regarding the formation of entry strategy. The meaning of strategy content is developed by decomposing the entry

strategy into decisions in four aspects. The meaning of strategy processes is discussed by establishing the assumptions taken for this research. The eclectic paradigm is adopted and discussed with its application to banking FDI. For each sub-paradigm of the eclectic paradigm, the main concept, the theoretical argument and the implications for the entry strategy are reviewed.

Chapter 5 reviews the empirical literature regarding the application of the OLI framework to the study of entry strategy of the MNBs in different contexts. Four areas of literature gaps are identified. Accordingly, the research propositions and questions are developed. Based on the research questions and the theoretical argument reviewed in Chapter 4, a conceptual framework is developed and explained in detail.

Chapter 6 discusses the philosophical perspective for the researcher and the case study research design. It argues why critical realism fits the research. Accordingly, the retroduction logic of reasoning is followed which also suggests a semi-grounded data collection for this study. Case study design, data collection and data analysis are discussed respectively in this chapter. Finally the pilot study to prove the case study approach is discussed with the criteria of quality assessment emphasised.

Chapter 7 focuses on cross case analysis based on four areas of strategic entry decisions. Each decision area is presented, with the evidence to support the meaning of the strategic entry decisions, the differences and similarities of the decision choices across the ten cases covered in this research.

Chapter 8 analyses the research data further by explaining results from Chapter 7. Using group analysis and pattern matching techniques, the impact of the OSAs and LSAs on the strategic entry decisions are explored. Four decisions patterns across ten MNBs are identified.

Chapter 9 discusses the findings from Chapters 7 and 8 linking the industrial level analysis and observations presented in Chapters 2 and 3. The findings are compared with the previous literature discussed in Chapters 4 and 5. The discussion highlights the findings in four aspects: concept of entry strategy, the entry strategic choices, the research propositions and entry decision patterns.

Chapter 10 concludes the whole study, highlighting the contributions of this research to the theory, research and practice. The limitations are discussed and potential areas for further research are suggested.

Chapter 2 Market Structure Relating to Foreign Banking in China

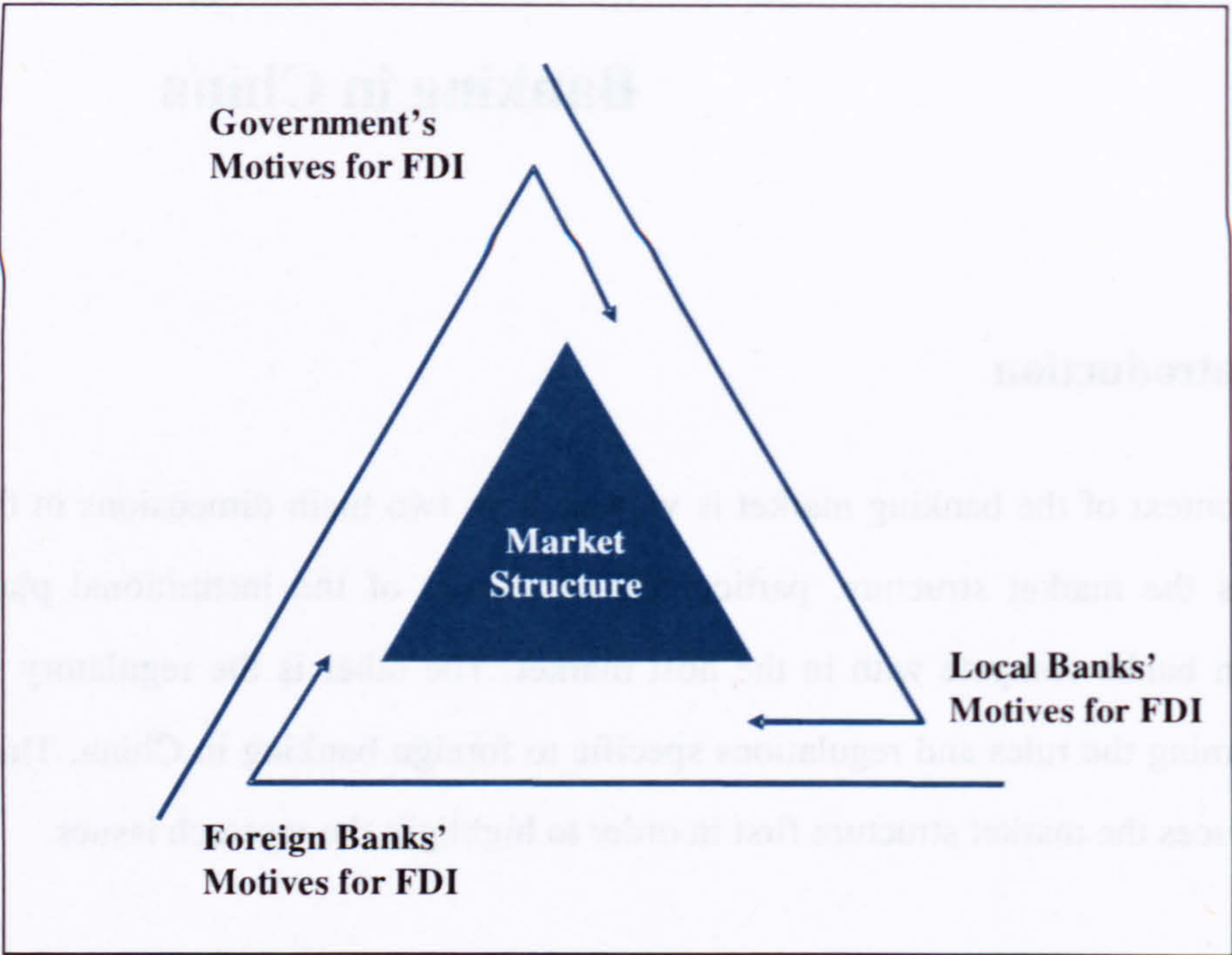
2.1 Introduction

The context of the banking market is viewed from two main dimensions in this study. One is the market structure, particularly in respect of the institutional players that foreign banks compete with in the host market. The other is the regulatory structure, concerning the rules and regulations specific to foreign banking in China. This chapter introduces the market structure first in order to highlight the research issues.

The market structure in this review is focused on the institutional structure composed of the main players and the changes in their market positions. As far as the inflow of banking FDI is concerned, the involvement of foreign banks potentially changes the local banking market structure. In general, at least three actors are involved in the FDI process (Marinov and Marinova, cited in Yaprak and Tutek, 2000); these are: the foreign investor, the host government, and the host enterprise. Each actor has expected gains or motives.

Given the above, the market structure is reviewed from three different perspectives in the context of the inflow of banking FDI. As shown in Figure 2.1, the changes in market structure can be attributed to different motives, hence different behaviours, according to the three parties involved in the banking FDI, i.e., the host government, the foreign banks, and the local banks. The motive of one party impacts upon the others.

Figure 2. 1 Market Structure viewed from Different Perspectives



The review presented in this chapter is based on macroeconomic and industry level data. Section 2.2 discusses changes in the market structure and their relationship to the motives for FDI from the host government perspective. Section 2.3 focuses on the motives of foreign banks and their participation in the market. Section 2.4 focuses on the local banks' position to understand their motives for FDI. The whole chapter is concluded in Section 2.5, which addresses the research issues that underpin this study.

2.2 Market Structure – the Host Government Perspective

2.2.1 Government's Motives for FDI

From the host government perspective, the motive of being involved in the banking FDI has to be considered from the point of view of its potential benefits to financial reform in China. As part of economic reform, financial reform is a top policy priority for the government which is aiming to establish an efficient, market-oriented banking

system (O'Connor, 2000). Under the gradualism approach, the transformation of the financial system “hasn’t been even, nor is it complete” (Farrell *et al.*, 2006:92).

Financial reform in China is mainly focused on the banking sector. Statistics for the development of non-financial sectors show the proportion of the four alternatives of financing, namely, bank loans, treasury bonds, equities (i.e., funds raised by listed companies) and corporate bonds was 82.9 per cent, 10.8 per cent, 5.2 per cent, and 1.1 per cent respectively in 2004 (PBOC, 2005a:25). As a consequence, problems such as an inefficient allocation of capital and a high concentration of risks raise challenges for the banking system to sustain the fast economic growth in China.

Bonin (1999:8) argues that reform of the Chinese banking system has at least four issues common to other emerging markets in transition economies; these issues are: i) the establishment of independent commercial banks; ii) the control of the undercapitalised domestic banks leading to instability rather than competition; iii) the implementation of effective banking regulation and prudential supervision; and iv) the resolution of the legacy of bad loans. Empirical studies suggest that these issues are aggravated by the structure of the Chinese banking system, which is so complex that foreign banks can play only a small role.

For example, the decentralisation of the banking system to give commercial banks more authority to compete in the market environment may create an agency problem and commitment failure (Shen and Park, 2001). There are complex reasons behind the government’s budget financing and policy lending (Cull and Xu, 2000, 2003; Lee, 1997). Policy lending is still pervasive (Park and Sehrt, 2001) although it is argued that the issue won’t threaten the banking system (Gordon, 2003). Many reform measures have an interlocking nature. For instance, using the asset management company (AMC) may not prevent the creation of new bad loans (Bonin and Huang, 2001).

Benefits deriving from the presence of foreign banks works in two ways from the host government viewpoint (He and Gray, 2001). First, foreign banks may increase the range and efficiency of international financial services in the host market. Second, through competition or co-operation with the domestic financial firms, foreign banks may enhance the efficiency of the indigenous financial sector. The benefits have only emerged incrementally during the process of banking reform discussed as described below.

2.2.2 Evolution of Market Structure

The literature has documented different perspectives on the process of banking reform by stages, among which the studies by Chiu and Lewis (2006) and Leung and Mok (2000) provide a comprehensive guide to this research. Altogether, five stages can be discerned, with different initiatives set out for tackling particular issues in each of the re-structuring processes.

i) Stage One (1979-1985): the Decentralisation Approach

The first stage of reform focused on restructuring the banking system and the creation of separate banking institutions. Since the establishment of the People's Republic of China in 1949 and before the 1979 economic reforms started, China had essentially adopted a mono-bank system, which meant that all banks were either under the control of, or merged into, the People's Bank of China (PBOC). At this stage, "the financial sector was regulated by a cash and credit plan both administrated through, and supervised by, the extensive branch network of the mono-bank" (Leung and Mok, 2000:43).

An early initiative of banking reform was to break up the mono-bank system to meet pluralistic funding needs. Under the "decentralization-cum-rehabilitation" approach

(Leung and Mok, 2000:43), three previously dissolved national state-owned specialised banks were reinstated in 1979 and an additional bank was established in 1984. The so-called “Big Four”¹ specialised state banks were in place.

The divestiture of commercial banking enabled the People’s Bank of China (PBOC) to formally become the central bank in 1984 and the “Big Four” began providing commercial banking in their own areas respectively. The banking system changed from “one of strictly centralized control to a diversified and functionally more specialized system” (Nanto and Sinha, 2002:472). At this stage, the commercial banks were only allowed to engage in non-pricing competition for deposits, foreign exchange and trade financing business among them.

ii) Stage Two (1986-1992): under the Entry Approach

The second stage of reform followed, which was promoted under the “entry approach” with the objective of instilling more competition in the sector in the early 1990s (Leung and Mok, 2000:44; Leung and Chan, 2006). In order to adapt to the rapidly growing and diversifying economy, bank institutions of different ownership were introduced to the market. They were the joint stock commercial banks (JSCBs) established in developed cities, collectively owned credit co-operatives which proliferated within cities and rural towns and non-bank financial institutions (NBFIs) of diversified ownership founded in major coastal cities and special economic zones (SEZs).

¹ The “Big Four” refers to the Agriculture Bank of China (ABC), which was reactivated in 1979, the Bank of China (BOC), which was separated out from the People’s Bank of China in 1979, the People’s Construction Bank, now renamed the China Construction Bank (CCB), which was established in 1983, and the Industrial and Commercial Bank (ICBC), which was established in 1984.

The same period also saw the initial development of the securities markets especially the Shanghai and Shenzhen stock markets. In 1992, the State Council Securities Committee (SCSC) and the China Securities Regulatory Commission (CSRC) were created to supervise the stock market. The institutional structure confirms the “division of labour between the securities industry and the banking industry” (Leung and Chan, 2006:194).

Under the “entry approach”, foreign banks were permitted to set up representative offices and branches to provide services for foreign firms engaged in business in the country. The involvement of the foreign banks is discussed further in Section 2.3.2. Despite dramatic institutional changes at this stage, the banking structure has essentially remained intact in terms of the competition; banks were subject to strict interest rate control and credit quotas at this stage.

iii) Stage Three (1993–1997): the Commercialisation Approach

In the third stage, in 1995, the pace of reform accelerated when the reform was focused on “commercialization or undertakings” of banks (Leung and Mok, 2000: 42). One measure was to bestow the policy-lending functions of the specialised state-owned banks to three policy banks² in 1994.

Meanwhile, a deliberate policy effort was made to promulgate the Central Bank Law and the Commercial Banking Law in 1995. Both laws provided substantial independence to commercial banks in their daily operations. Finally, in 1998, the credit ceiling system was terminated.

² Specifically, the State Developing Bank of China is responsible for the financing of various infrastructure projects. The Export-Import Bank of China is responsible for the import and income-generating export industries. The Agriculture Development Bank of China is in charge of agriculture financing.

However, the reform failed to make very significant progress. Partly, the administrative ties, local government and state-owned enterprises (SOEs) have hindered the enforcement of the banking laws. Commercial banks were still required to make loans in accordance with the state industrial policy and government money supply policy. Pei (1998:321) concludes reform at this stage that “despite the apparent effectiveness of the short-term measures taken to bolster public confidence in the banking system, China’s banking reform will be a difficult and prolonged process.”

iv) Stage Four (1998–2002): Non-Performing Loans Resolution

The fourth stage of reform started from the late 1990s, when a significant effort was made to strengthen banks’ balance sheets. Past lending practices, entirely based on political considerations, coupled with the poor performance of the SOEs, had left Chinese banks with a large amount of non-performing loans (NPLs). As a result, a capital inadequacy issue threatened the solvency of banks. The size of NPLs at that time of this fourth stage of reform was in the range of RMB 6-7 trillion, or more than 40 per cent of total loans outstanding (Leung *et al.*, 2002:6).

To deal with the NPL problem, the authorities adopted different measures (Chen, 2003; Lo, 2004) including re-capitalising the state-owned banks with the assistance of the government³, removing NPLs to the Asset Management Companies (AMCs)⁴, requiring banks to improve internal credit and risk management, and increasing capital adequacy through converting banks into corporate entities suitable for stock exchange

³ In 1998, the government issued RMB 270 billion yuan special-purpose treasury bonds to recapitalise the four SOCBs. In 1999, the four AMCs removed RMB 1.4 trillion (USD 169 billion) of NPL purchased at face value from the SOCBs (PBOC, 2005a:80).

⁴ Each of the four Asset Management Companies (AMCs) acquired significant assets from one of the four state-owned commercial banks (SOCBs). The AMCs are: Orient AMC to BOC, Great Wall AMC to ABC, Huarong AMC to ICBC, and Xinda AMC to CCB.

listing.

The total stock of the NPLs held by commercial banks has declined slowly. The “Big Four” reduced their average NPLs ratio from 20.4 per cent in 2002 to less than 15.6 per cent in 2004 (Leung and Chan, 2006:223). However, the value of relative new loans has climbed to RMB⁵ 100 billion, casting doubt on the quality of the credit (Bank of Finland, 2006:3).

v) Stage Five (2003 onwards): Shareholding Reform

The fifth stage started from late 2003. The lack of profit-oriented owners to monitor bank management has been at the heart of the corporate governance problem in SOCBs. A crucial step is the “shareholding reform” officially started on December 30, 2003. The reform aimed to turn the four SOCBs into “modern commercial banks with adequate capital, rigorous internal control, safe operations, satisfactory services, good profitability and international competitiveness” (PBOC, 2005a:81).

The shareholding reform takes a “pilot project” approach following the “one bank, one policy” principle. China SAFE⁶ Investment Ltd. was established and authorised by the State Council to conduct financial restructuring and to fulfil the role of the shareholder in the reform. Two SOCBs, i.e., the Bank of China and the China Construction Bank became the first pilot banks. Both banks have attracted foreign strategic partners. At this stage, foreign banks would seem to have a more direct role to play in the reform of the banking structure in China.

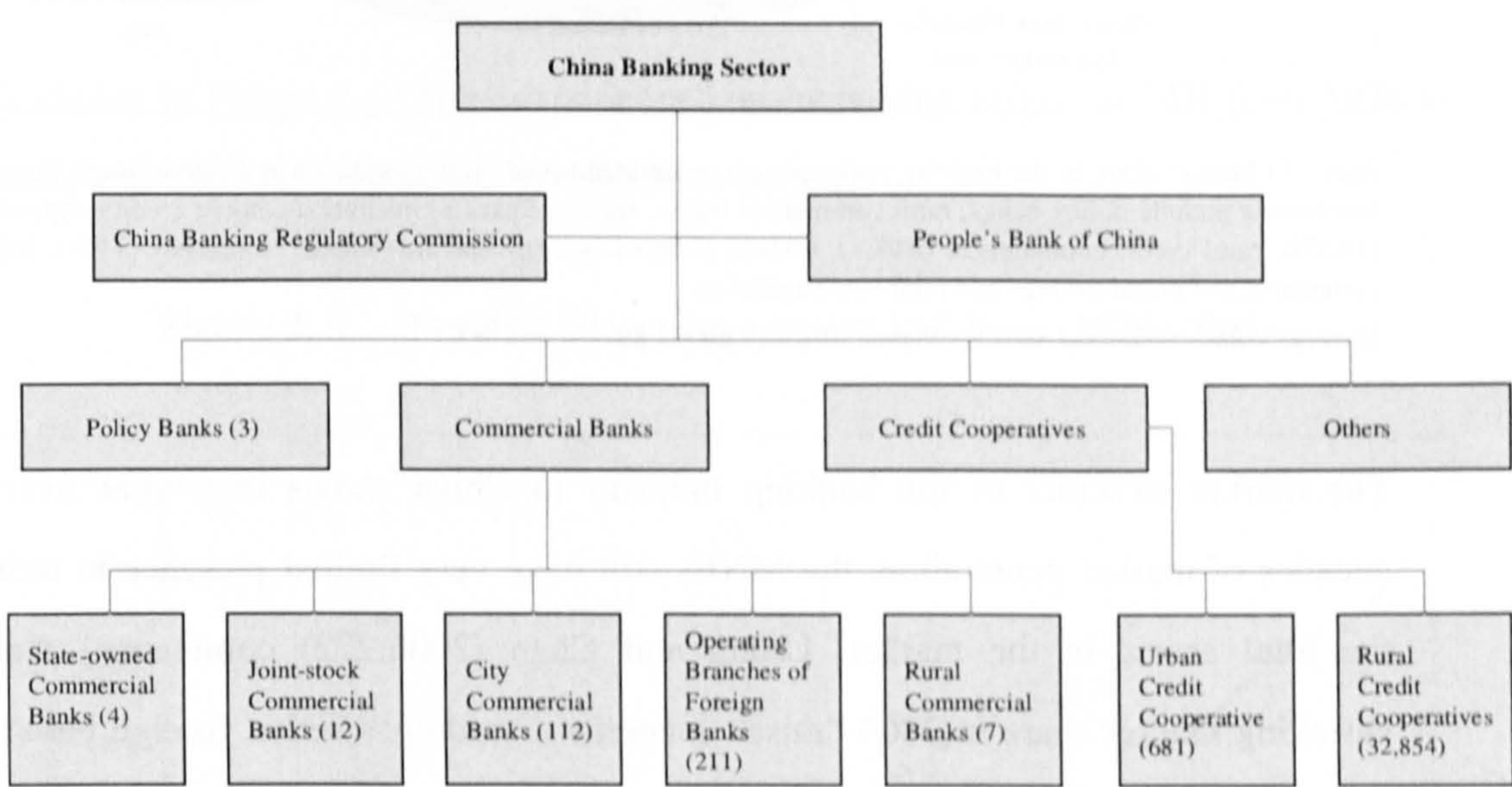
⁵ RMB denotes Renminbi, the currency of People’s Republic of China.

⁶ SAFE stands for the State Administration of Foreign Exchange.

2.2.3 Market Structure

With gradual banking reform, the industry structure has transformed from a largely monopoly form to a combination of both monopoly and competition. As shown in Figure 2.2, a more variegated structure has been created. The main players include the semi-autonomous state-owned commercial banks (SOCBs) co-existing with a widening array of other banks' ownership types and financial institutions such as joint stock commercial banks (JSCBs) and city commercial banks (CCBs).

Figure 2. 2 Banking Structure in China



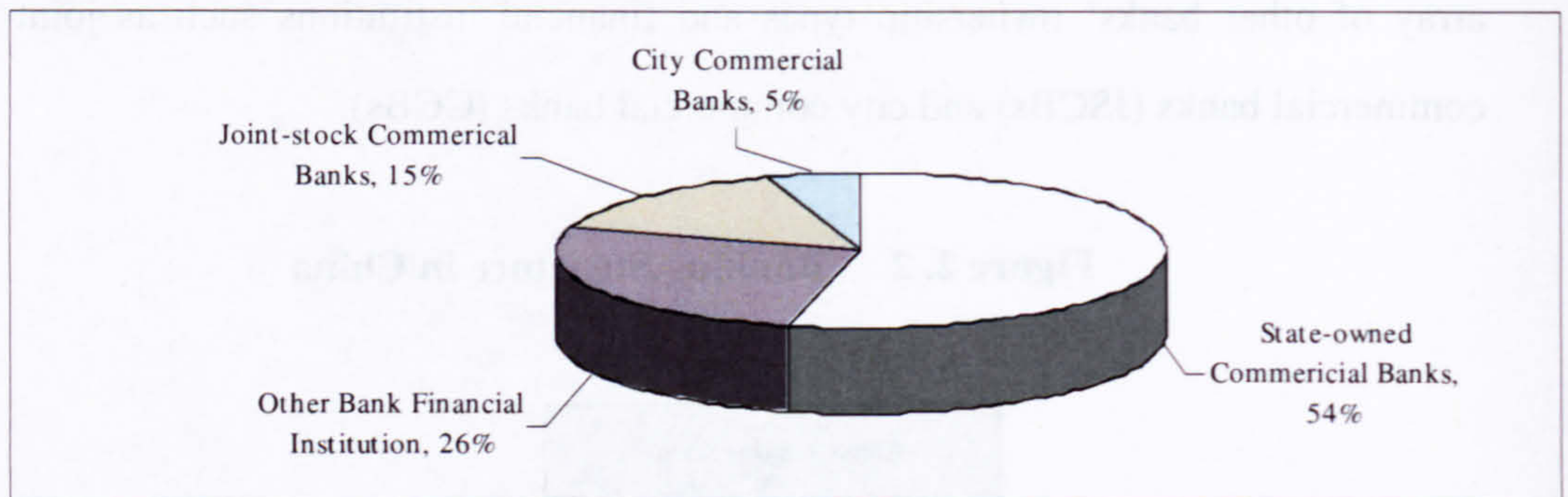
Note: 1) According to Article 2 in the "Law of the People's Republic of China on Banking Regulation and Supervision " (December 27, 2003), 'banking institutions means financial institutions established in the People's Republic of China that take deposits from the general public, including, among other commercial banks, urban credit cooperatives and rural credit cooperatives, and policy banks. The provisions of this law pertaining to the regulation and supervision of asset management companies, trust and investment companies, finance companies, financial leasing companies and other financial institutions established in the People's Republic of China as authorized by the banking regulatory authority under the State Council'; 2) Data is collected as of the end of 2004.

Source: Based on *China Financial Stability Report* (PBOC, 2005a:205).

As shown in Figure 2.3, the “Big Four” SOCBs have generally accounted for over 50 per cent of market share in terms of the total assets of all China’s banking institutions. This concentration ratio was 93.04 per cent in 1994 and has seen a gradual decrease over the years (Wong and Wong, 2001:22). Other bank financial institutions have

accounted for 26 per cent of the total bank assets, of which the share of foreign banks shrank from 2.5 per cent in December 2001 to around 1.8 per cent in December 2004 (CBRC, 2004; Leung and Chan, 2006:222).

Figure 2.3 Market Share of the Main Banking Institutions



Note: 1) Market share in the banking institutions is calculated based on the total assets; 2) Other Bank Financial Institutions include policy banks, rural commercial banks, foreign financial institutions, urban credit cooperatives (UCCs), rural credit cooperatives (RCCs), finance companies, trust and investment companies (TICs), leasing companies and postal savings and remittance agencies.

Source: *China Financial Stability Report* (PBOC, 2005a:80).

The market structure of the banking industry in China shows that, after over two decades of market penetration, the MNBs still have very limited presence in terms of the total assets in the market. Leung and Chan (2006:222) commented that the shrinking market share in 2004 “raises concerns regarding whether foreign banks will truly benefit in the post-WTO Chinese banking market”. However, the fact is that even with a very limited market share for a long term, the MNBs still keep entering into the market. The questions of why the MNBs penetrate into the market and how they are developing for the future have been less studied together in the past. These questions are expected to be explored through this research.

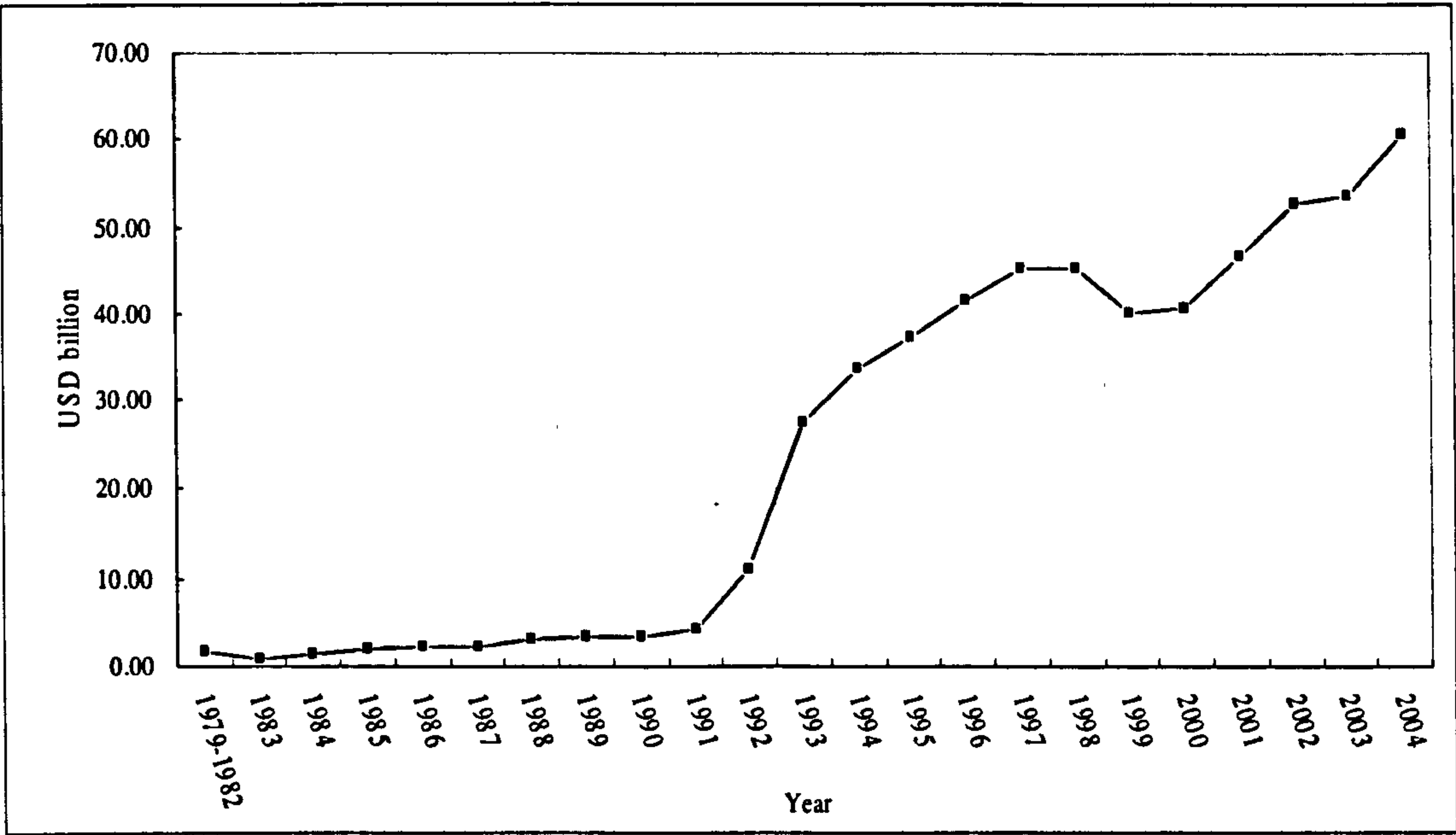
2.3 Market Structure – the Foreign Bank Perspective

2.3.1 Foreign Banks’ Motives for FDI

Despite having rather underdeveloped financial sectors, China has enjoyed accelerated economic growth in recent decades. China’s economy grew at an average annual rate of 9.4 percent from 1978 to 2004 .(PBOC, 2005a:20). This was the fastest and longest-sustained economic growth in the world. The impressive economic growth is associated with the rapid expansion of FDI and foreign trade in China (Leung, 1997).

As shown in Figure 2.4 China experienced an increasing inflow of FDI from 1978 to 2004, which can be seen as comprising three periods.

Figure 2. 4 Foreign Direct Investment in China (1979–2004)

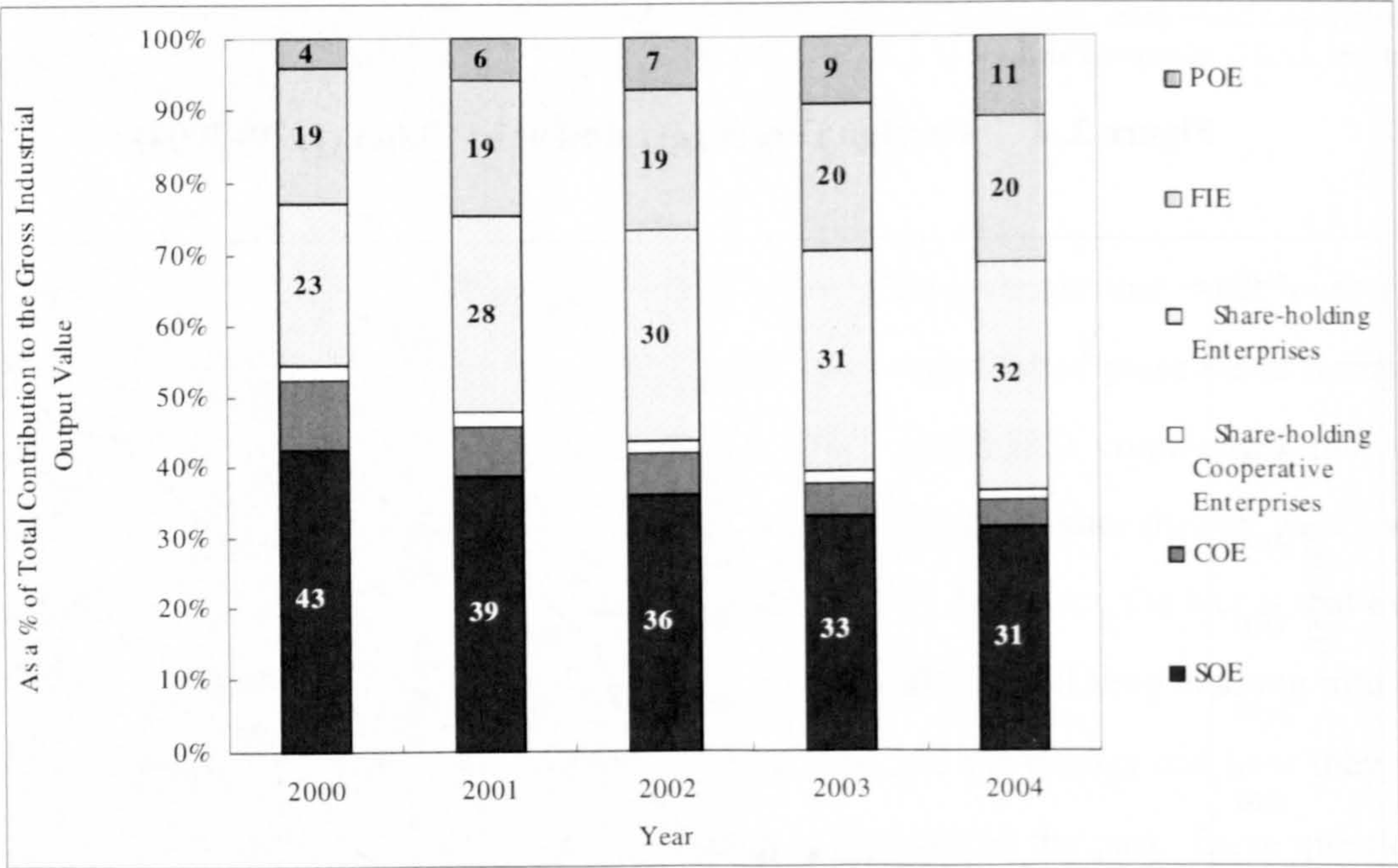


Note: Original data is from the General Administration of Customs of the People’s Republic of China.

Source: Ministry of Commerce of the People’s Republic of China (2002); National Bureau of Statistics of China (2004).

During the first period – the 1980s – FDI steadily increased, mainly in the special economic zones in South China. Since 1993, China has been the second-largest recipient of FDI in the world after the United States (Huang, 2004). In the second period – the 1990s – preferential policies such as special tax concessions, liberalised land leasing and other inducements were made available to a growing number of coastal cities. The third increase started from the year 2000 shortly after the plummet and impact of the Asian Financial Crisis. In general, the fast increase of FDI was attributed to China’s less risky political and economic environment (Lardy, 1995).

Figure 2. 5 Contributions to Gross Industrial Output Value by Enterprises of Different Ownership



Note: 1) The gross industrial output value is calculated at current prices; 2) All state-owned and non-state-owned industrial enterprises above designated size refer to all state-owned industrial enterprises and the non-state-owned industrial enterprises with an annual sales income over RMB 5 million; 3) Non-state-owned industrial enterprises include collectively-owned enterprises (COE), share-holding enterprises, share-holding cooperative enterprises, foreign funded enterprises and enterprise with funds from Hong Kong, Macao and Taiwan (FIE), and privately-owned enterprises (POE).

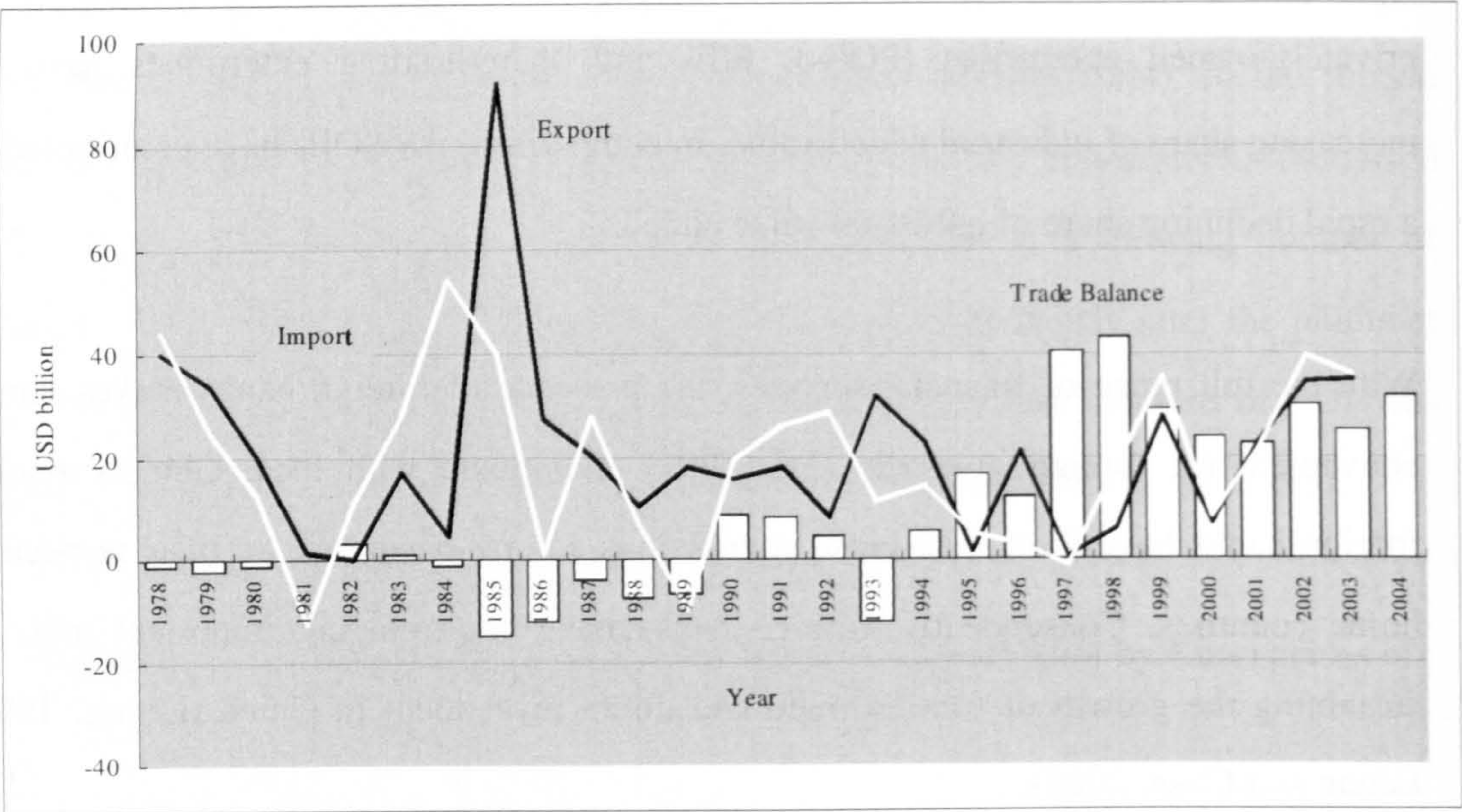
Source: National Bureau of Statistics of China (2005).

Along with the development of inflow of FDI, many foreign-invested enterprises (FIEs) were set up and developed. Figure 2.5 shows that from 2000 to 2004, the privately-owned enterprises (POEs), FIEs and share-holding enterprises have an increasing share of industrial added value. In comparison, the SOEs have contributed in a rapid declining share of industrial value added.

With the full range of financial services, the presence of foreign banks makes things convenient for foreign investors (Xu, 1991). Compared with local Chinese banks, foreign banks have direct and close connections among businesses in their respective home countries. Consequently, foreign banks have been playing important roles in sustaining the growth of foreign trade and direct investment in China (Leung, 1999; Leung and Chan, 2006).

Most FIEs are export-oriented enterprises under China's policy in foreign trade. Figure 2.6 shows the pace of import and export growth. Export growth held strong in China and the country has had a trading surplus over the past ten years. In fact, "the most impressive export performance has been by foreign-funded enterprises and Chinese firms engaged in export processing" (Lardy, 1995:1076). Exports by the FIEs expanded from only a modest portion of the total export value in the early 1980s to around one-third of the total export value in the mid-1990s. In a similar period, the presence of foreign banks increased quickly, indicating that the main business of foreign banks at its earlier entry period was trade-related banking services.

Figure 2. 6 Import and Export Growth and Trade Balance



Note: 1) Original data is derived from the General Administration of Customs of the People's Republic of China; 2) Import and Export data are based on y-o-y percentage changes.

Source: Ministry of Commerce of the People's Republic of China (2002); National Bureau of Statistics of China (2004).

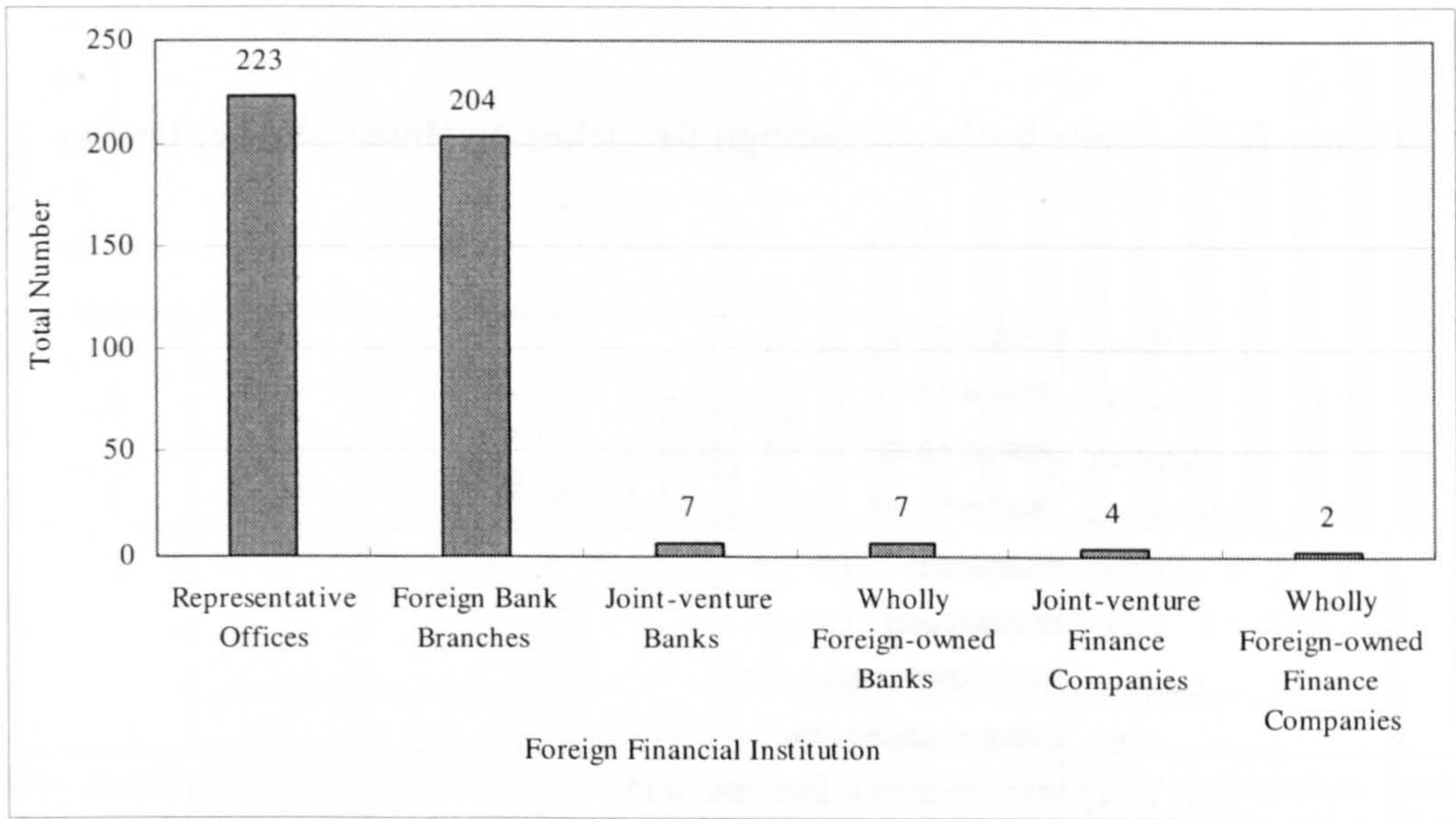
2.3.2 Evolution of Market Presence

Since the economic reform in 1978, foreign banks have gradually been allowed to re-enter the Chinese market⁷. The institutional presence suggests who, where, in which way, and to what extent foreign banks have set up their presence in the local market. In general, foreign financial institutions (FFIs) have six main entry routes to setting up a presence in China: representative office, bank branch, wholly foreign-owned bank, joint venture bank, wholly foreign-owned finance company, and joint venture foreign finance company.

⁷ By 1952, most foreign banks had withdrawn from the country. Only four foreign banks, namely the Hong Kong & Shanghai Bank, Standard Chartered Bank, the Overseas Chinese Bank, and the Bank of East Asia, maintained offices in Shanghai. While these foreign banks were not allowed to do any banking business, they maintained offices in the hope that the situation would change for the better (Shen, 2000:21). In 1979, the State Council permitted the establishment of the first representative office, the Export-Import Bank of Japan in Beijing. In 1982, Hong Kong's Nanyang Commercial Bank opened the first foreign branch in China (Nanto and Sinha, 2002).

As shown in Figure 2.7, according to the report on *Financial Services in China* (2005:112), by the end of 2004 there were altogether 62 foreign banks from 19 countries and regions, which had established 204 operational institutions and 223 representative offices, including 14 locally incorporated foreign banks (7 are wholly foreign-owned banks⁸ and 7 are joint venture banks⁹).

Figure 2. 7 Presence of Foreign Financial Institutions



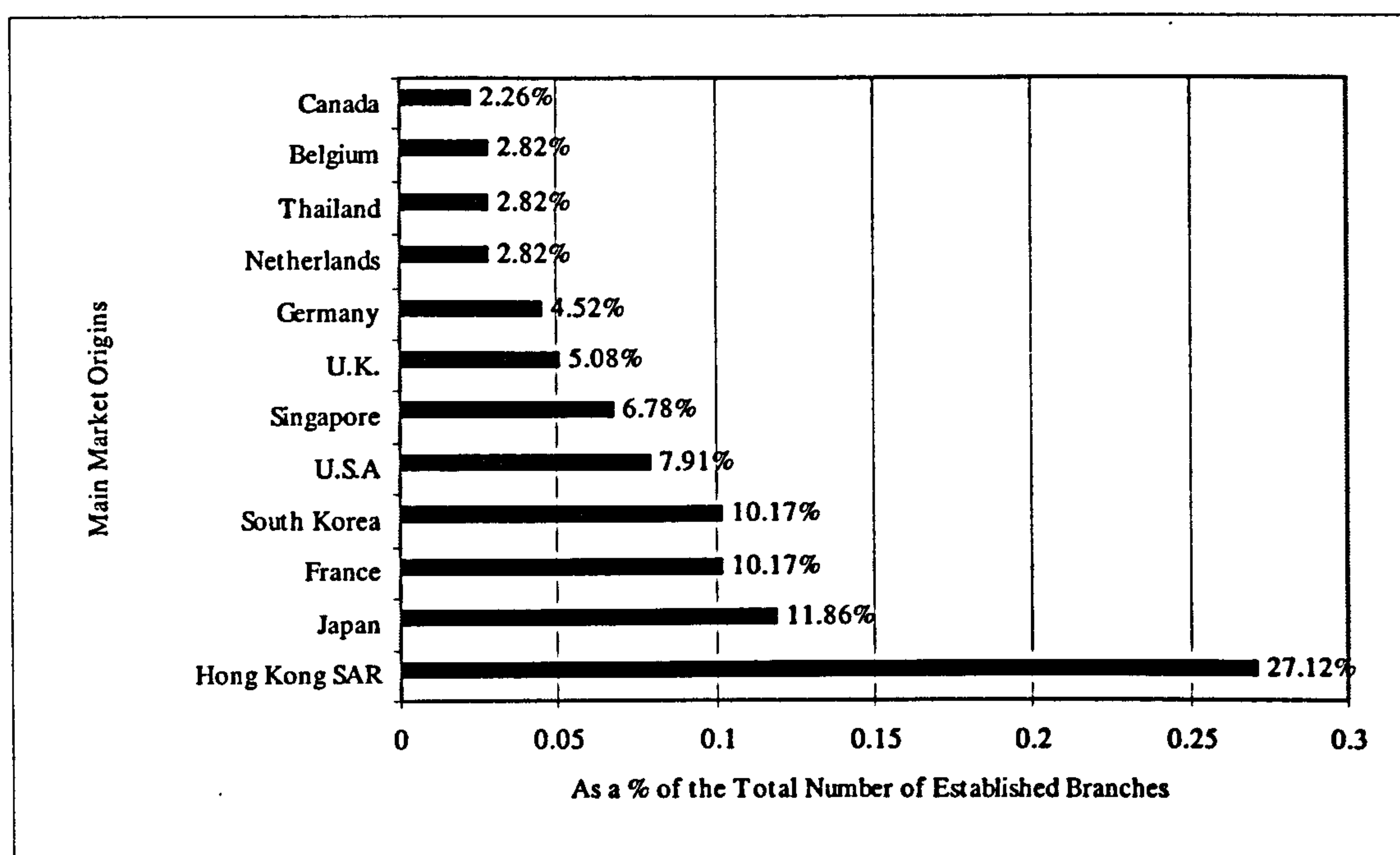
Note: Data collected at the end of 2004.
Source: Registered List of Names of Foreign Banks in China (CBRC, 2005).

The branch is the dominant operational form chosen by foreign banks for conducting business. According to Shen and Park (1999:25), most foreign banks wish to take advantage of maintaining a presence in China in order to “closely monitor the market, observe business risk, obtain credit information, and develop business opportunities.”

⁸ In 1984, Zhuhai Nantong Bank Ltd. opened as the first wholly foreign-owned bank.
⁹ In 1985, Xiamen International Bank opened as the first joint venture financial institution.

The distribution of foreign bank branches by market origin is shown in Figure 2.8. Hong Kong SAR (Special Administrative Region) has the leading position with the largest number of branches established in Mainland China. The other leading entrants in terms of their market origin include banks from Japan, France, South Korea, the United States, Singapore, the United Kingdom and Germany. This distribution seems to be in line with the most active bilateral trade partnerships. The leading trade partners, by bi-lateral export and import are Hong Kong SAR, other Asian countries, the EU countries, and the U.S. (BOFIT, 2006).

Figure 2. 8 Distribution of Foreign Branches by Home Market Origin



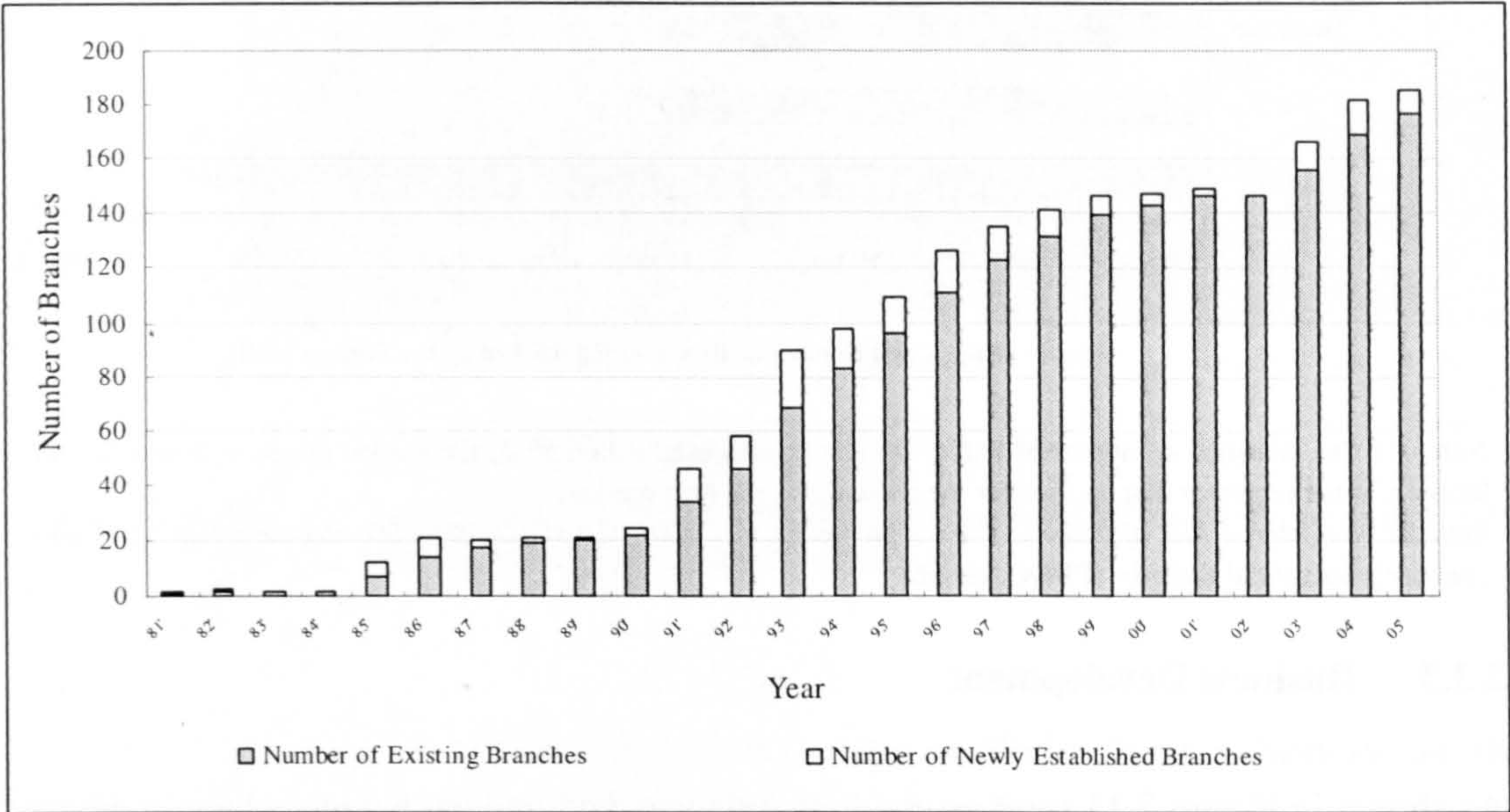
Note: 1) The statistics do not cover banks without branch establishment; 2) The home market origin is defined by the location of home regulator; 3) Data collected at the end of 2004.

Source: *Registered List of Names of Foreign Banks in China* (CBRC, 2005); *The People's Bank of China Quarterly Statistical Bulletin* (PBOC, 2005b).

The presence of foreign banks via branch mode has developed in line with the inflow of FDI. As shown in Figure 2.9 there have been three periods of rapid growth in terms of branches. One was in the mid-1980s when the Chinese banking industry was liberalised

and financial reform started. The second was in the mid-1990s when the “entry approach” to reforming the banking industry was established. The third period of fast growth started after the country successfully joined the World Trade Organisation (WTO) in 2001.

Figure 2. 9 Development of Foreign Bank Branches (1981–2005)



Source: Registered List of Names of Foreign Banks in China (CBRC, 2005); The People’s Bank of China Quarterly Statistical Bulletin (PBOC, 2005b).

As at the end of 2004, 18 cities were opened to foreign banks. Figure 2.10 shows that despite the regulatory restrictions, Shanghai, Beijing and Shenzhen are the most popular locations for the establishment of foreign bank branches. Of the three, Beijing was opened most recently but quickly become an attractive location. With more cities opening for foreign banks, foreign banks may select their geographical locations which best fit their strategic intention.

Figure 2. 10 Distribution of Foreign Bank Branches by Location



Note: 1) The statistics do not cover banks without branch establishment; 2) the market origin is defined by the location of the regulator that applied for the presence in the host market.

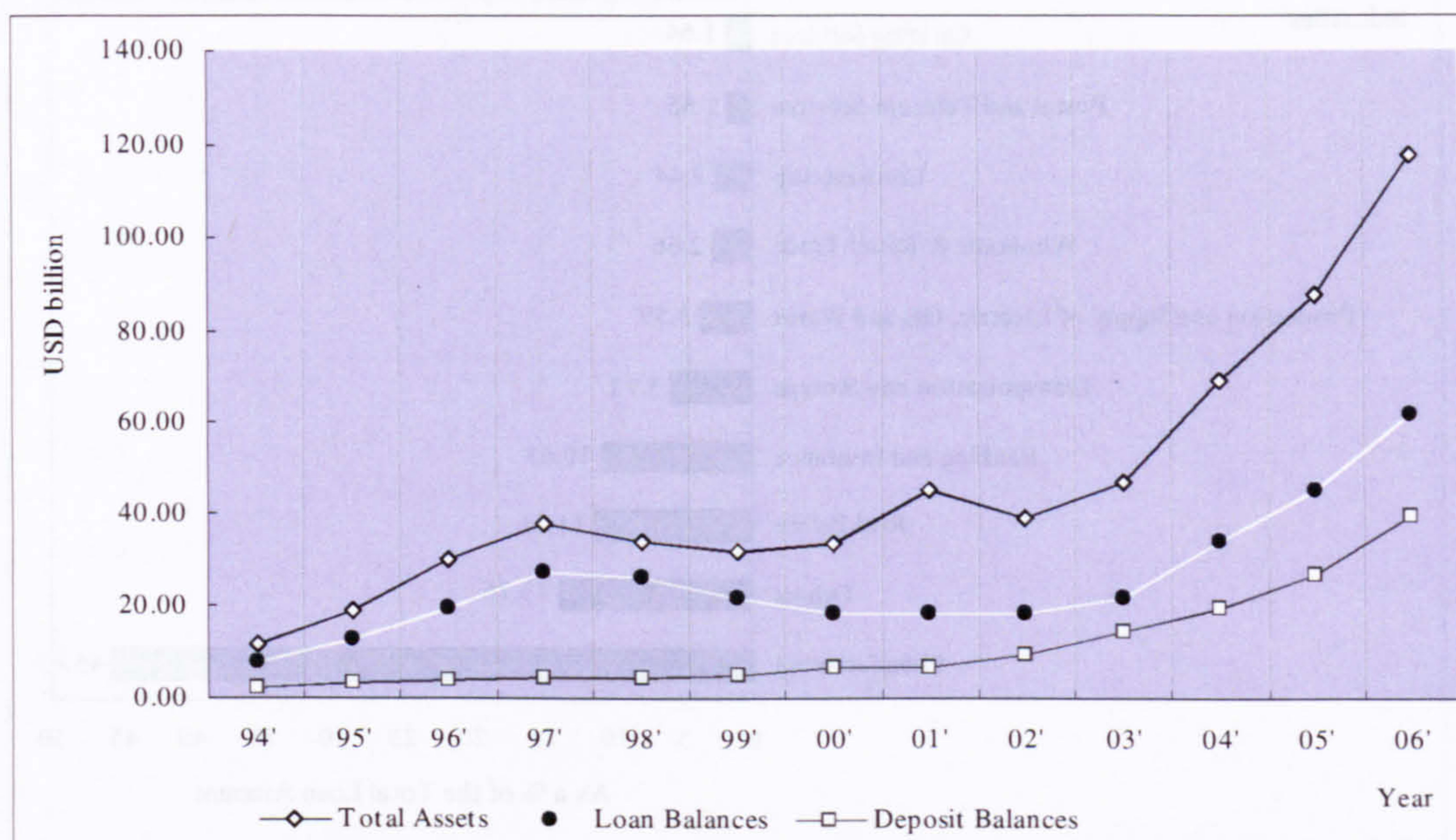
Source: *Registered List of Names of Foreign Banks in China* (CBRC, 2005); *The People's Bank of China Quarterly Statistical Bulletin* (PBOC, 2005b).

2.3.3 Business Development

As shown in Figure 2.11 total assets, loan balances and deposit balances have increased steadily. However, in the past five years, the scale of activity of foreign banking has accelerated. By the end of 2004, foreign banks had total assets that reached over USD 69.4 billion, which was a 37.5 per cent increase over 2003. Total liabilities reached USD 94.4 billion, an increase of 48.8 per cent on 2003. Loan balances reached USD 64.8 billion, an increase of 45.2 per cent on 2003 (CBRC, 2004).

As a supplier of foreign capital, loans granted by foreign banks increased from US\$ 2.05 billion in 1991 to USD 21.5 billion in 1999 (Leung and Young, 2002:4). Over the same period of time, the assets only increased from 1.6% of the total assets of the state commercial banks in 1991 to 2.8 % in 1999. Such a change reflects the importance of the role of foreign banks in the segmented market for foreign currency business.

Figure 2. 11 Development of Assets, Loans, and Deposit Balances of Foreign Banks

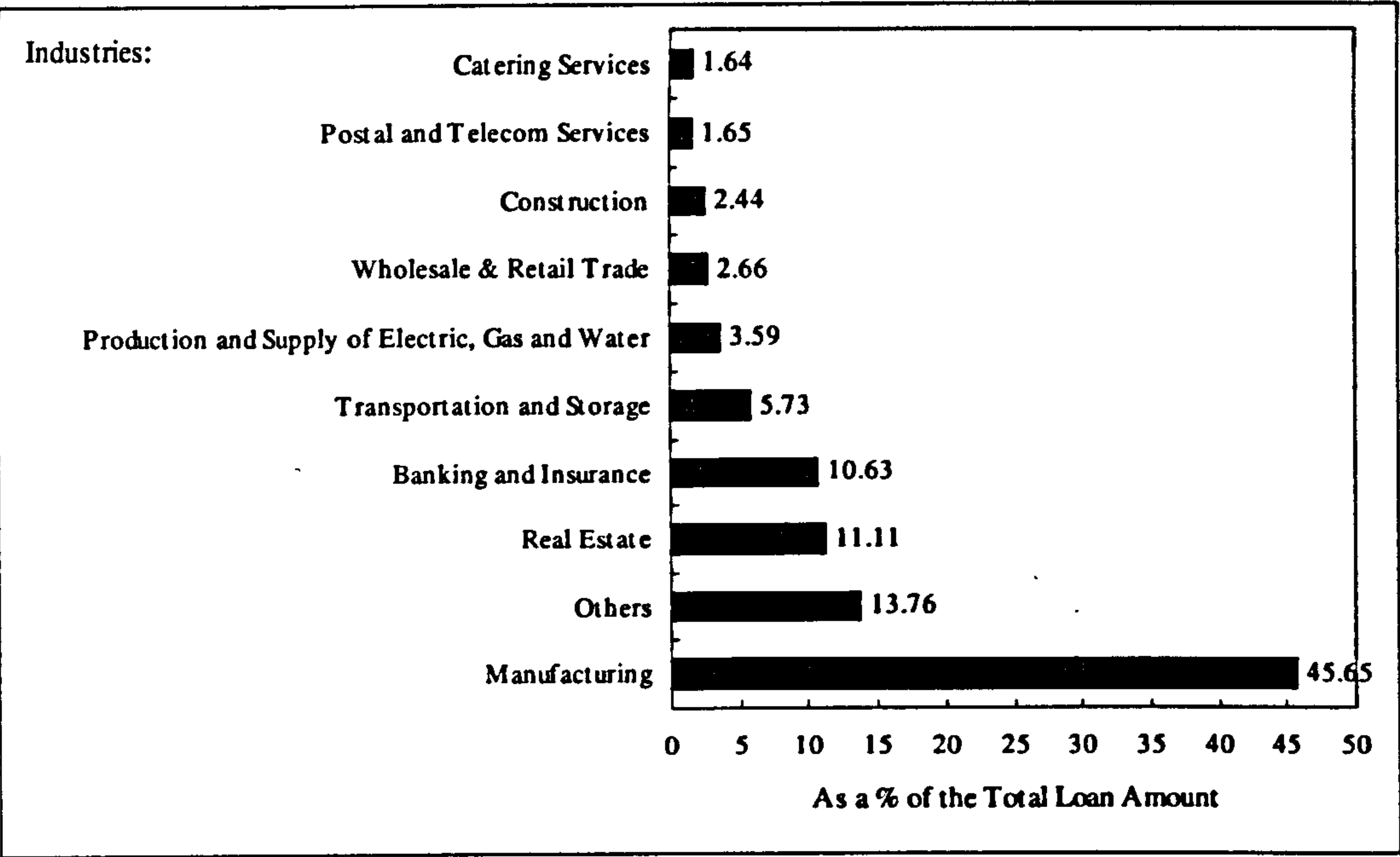


Note: 1) Loan balances for 2005 and 2006 are not available; 2) Deposit balanced for 2003 is not available; 3) data of 2003, 2004 and 2006 were updated from the same source.

Source: PBOC (2002).

As shown in Figure 2.12, foreign banks' loan portfolio focuses heavily on the manufacturing industry, representing an average of over 45 per cent of the total loans each year from 1999 to 2002 and over 57 per cent in 2004. The other leading sectors that attract loan allocation include financial and insurance industries, real estate industry, transportation, and storage industries.

Figure 2. 12 Aggregated Loan Allocation by Industries of Foreign Banks



Note: Data was collected at the end of 2002.

Source: Based on CBRC (2002).

2.4 Market Structure – the Local Bank Perspective

2.4.1 Local Banks’ Motives for FDI

The entry into the WTO has further accelerated the opening up of the banking system. As shown in Table 2.1, after the accession to the WTO in 2001, more business activities previously restricted to foreign banks are relaxed. More cities are opened to foreign banks each year. By the end of 2006, geographical restriction is lifted. The client coverage for foreign banks to provide services is extended. Also the requirement for licensing becomes less restricted.

All major restrictions on the participation of foreign banks in China’s financial sector were lifted by December 2006, supporting the view that “China’s banks need both capital and an internal restructuring to meet the upcoming increased competition” (Hansakul, 2004:1).

Table 2.1 WTO Commitment on Banking Reform

	2002	2003	2004	2005	2006	Post 2006
Activities subject to Restrictions	acceptance of deposits and other repayable funds from the public; lending of all types including consumer credit, mortgages, factoring, financing of commercial transactions; financial leasing; all payment and money transmission services including credit, charge and debit cards, travellers cheques; guarantees and commitments;					
Geographic Coverage (cities to be opened additionally)	Tianjin Dalian Shanghai Shenzhen	Guangzhou Qingdao Nanjing Wuhan	Jinan Fuzhou Chengdu Chongqing	Kunming Zhuhai Beijing Amoy	Swatow Ningbo Shenyang Xian	lift all geographical restrictions
Client Coverage (services offered by foreign banks to be opened additionally)	foreign companies and foreign individuals	Chinese domestic enterprises			Chinese individuals (lift all restrictions)	
Company Licensing Requirements	total assets more than US\$ 10 bn. to establish a foreign subsidiary of joint venture; total asset more than US\$ 20 bn. to establish a branch; further operations in China, being profit-making for 2 consecutive years prior to the application, otherwise none;					no establishment restrictions

Source: Huang (2003:2); Hansakul (2004:2).

2.4.2 Institutional Changes

The motives for involvement with the inflow of FDI can be different because of the competitiveness of the different main players i.e., the SOCBs, JSCBs and CCBs. Each group of banks possesses its own competitive advantages and disadvantages, as well as having a different status in financial reform processes, hence having potentially different positions in receiving, or being assessed by, investment from foreign banks.

The first tier of players is the SOCBs, representing the four largest banks in China. These banks operate nationally with extensive branch networks and are owned centrally by government agencies. They account for over 50 per cent of the total assets of the industry. The “Big Four” are in the process of completing their IPO (initial public offering). The China Construction Bank (CCB) and Bank of China (BOC) already completed their IPOs in 2005 and the ICBC in 2006.

The second tier of players is the JSCBs. There are twelve such banks in China. They are smaller and some operate at a regional level only. Their operational scope varies according to their national or regional licence. These banks are owned by state agencies, state-owned and non-state-owned enterprises. Some of them are listed on the national stock exchange, which further diversifies their ownership structure.

The third tier of players is the CCBs. They are the smaller banks incorporated at a city level and often owned by the city government. The competitiveness of these banks is diversified. Some of the largest and best performing CCBs can compete with the smaller JSCBs. City governments have originally owned and partially still own the banks, and thus have the influence of local government.

2.4.3 Strategic Partnership

Table 2.2 shows some examples of partnerships established through foreign equity investment into the local commercial banks. In facing the emerging competition from foreign banks, the local Chinese banks may seek inward investment as a means of achieving domestic and international competitive advantage. Therefore, foreign investors and local banks are trying to match their mutual benefits and risks.

The prospects for formal regulations governing foreign equity purchasing transactions have improved. The establishment of the China Banking Regulatory Commission (CBRC) in 2003 made the responsibility of the government clear.

By the end of 2005, 25 foreign banks had taken stakes in 20 Chinese domestic banks in total (Wu, 2006). The total investment was almost USD 13 billion. Foreign banks have become involved in equity investment in all of the three main types of local banks, namely, SOCBs, JSCBs and CCBs. Although foreign equity share percentage is still controlled by regulation, the rule does not appear to be constraining foreign banks in terms of equity investment.

Table 2.2 Current Cases of Equity Investment Partnership

Case	Chinese Bank	Foreign Investors	Approval Time	Amount of Equity (USD million)	% of Stake
1	China Everbright Bank	Asian Development Bank	1996	20	3
2	Bank of Shanghai	International Finance Corporation	1998	25.61	5
		International Finance Corporation	2001	24.67	2
		Hongkong and Shanghai Banking Corporation Ltd.	2001	62.57	8
		Hongkong and Shanghai Banking Corporation Ltd.	2001	23.47	3
3	Nanjing City Commercial Bank	International Finance Corporation	2001	26.46	15
4	Shanghai Pudong Development Bank	Citigroup (through Citibank Overseas Investment Corporation)	2002	67.53	5
5	China Minsheng Bank	International Finance Corporation	2003	23.5	1.22
		Asian Financial Holding (Tetrad Investment Pte Ltd.) (Singapore)	2004	107	4.55
6	Industrial Bank Ltd.	Hang Seng Bank	2004	208	15.98
		Tetrad Investment Pte Ltd. (Singapore)	2004	65	5
		International Finance Corporation	2004	52	4
7	Xi'an City Commercial Bank	Bank of Nova Scotia (Canada)	2004	3.2	2.5
		International Finance Corporation	2004	3.2	2.5
8	Bank of Communications	Hongkong and Shanghai Banking Corporation Ltd.	2004	1747	19.90
9	Shenzhen Development Bank	Newbridge Asia AIV III L.P.	2004	150	17.89
10	Jinan City Commerical Bank	Commonwealth Bank of Australia	2004	17.35	11

Note: Data collected by the end of 2004.

Source: Howson and Ross (2003); China Knowledge Press Private Ltd. (2005:114).

2.5 Chapter Conclusions

This chapter reviews the evolution of the banking market structure in China. The review tries to understand how the banking market structure may have changed under the impact of the inflow of banking FDI because of the potentially different motives of the three parties involved: i.e., the host government, the foreign banks, and the local banks. An evolutionary review is conducted based on aggregated macroeconomic and industry level data.

From the host government perspective, the authorities can take advantage of foreign investment, which “offers encouragement of competition to create market-led economies” (Marinov and Marinova, 2000:22). The review suggests the complexities of the reform processes require a gradualism approach (DaCosta and Foo, 2002; McKinnon *et al.*, 1993; Qian, 1994). As the market structure evolves, Simpson and Evans (2000:5) argue that “the prospect of foreign investment will be a strong factor in the process of reforming the domestic banking system”.

From the foreign banks’ perspective, the huge potential market for financial services is attractive. The growth of FDI and China’s imports and exports seems to indicate foreign banks “follow customers in trade and in investment” (Leung and Young, 2002:3). Leung and Chan (2006:221) find that “foreign banks had mainly met the financing needs of their home customers, whom they had followed into China”. Metcalfe, (2005:5) concludes that “the sheer size and scale of the future wholesale and retail market continues to make China a unique and enticing business opportunity”.

From the local banks’ perspective, it seems that domestic banks can rely on the government authorities for continued support. In order to meet its WTO obligations, the government has introduced a number of institutional changes, which might not benefit foreign banks directly (Leung and Chan, 2006). However, local banks tend to seek

cooperation rather than competition with foreign investors. There has been a rapid development of strategic partnerships through foreign equity investment which has developed quickly following the relaxation of rules for foreign banks.

Retrospectively, the phasing-in approach to opening up to foreign banking in China suggests policy concerns about the potential negative effects from foreign banks on the domestic banking market and domestic banking institutions. He and Gray (2001:235) argue for the imposition of additional regulations on foreign banks for the purposes of protection of indigenous financial firms, so as to “avoid the danger that foreign banks will not provide capital to their affiliates in the event of the insolvency of the latter”. Running contrary to all the development of the inflow of banking FDI is the introduction of perhaps an ever-increasing range of regulations that may hinder the foreign banks’ market entry and expansion. In this regard, the regulatory context is the focus of the following chapter.

Chapter 3 Regulatory Structure Relating to Foreign Banking in China

3.1 Introduction

Following the introduction of the market structure, this Chapter examines the secondary dimension of the research context, namely, the regulatory structure. Regulatory structure in this study refers to the structure of regulatory institutions, the rationale and specific regulations that are crucial for foreign banking in China.

Scott (1995) identified three principal types of institution affecting organisational activities: the financial regulatory institutions that function through the use of laws and sanctions; the normative institutions that define the roles and actions expected of individual firms; and the cognitive institutions that are mostly associated with the cultural elements in a society. Although all three dimensions are part of the phenomenon in China (Scott, 2002), in this study, emphasis is given to the introduction of the financial regulatory institutions first.

An evolutionary approach is taken to introduce rather than assess the regulatory context. Because of the fast changing regulatory conditions, the discussion only focuses on the regulatory issues regarding foreign banking up to the time the research was conducted.

The chapter is structured as follows: Section 3.2 overviews the characteristics of the regulatory institutions in relation to foreign banking in China; Section 3.3 examines the key legislation with regard to the entry mode control for foreign banking; Section 3.4 discusses the supervisory constraints with respect to issues of licensing, business scope

and operation in foreign banking; Section 3.5 addresses how special regulations on lending policies may have directly or indirectly constrained the business expansion of foreign banks; and finally, Section 3.6 draws together conclusions and preludes regulatory conditions for foreign banks in the future.

3.2 Regulatory Institutions

In general, China's legal system consists of regulatory institutions established in a three-level hierarchical structure. As shown in Figure 3.1, at the top of the hierarchical framework is the National People's Congress (NPC) of China. Submissive to the NPC are the State Council and different ministries (Zhou, 2000:25).

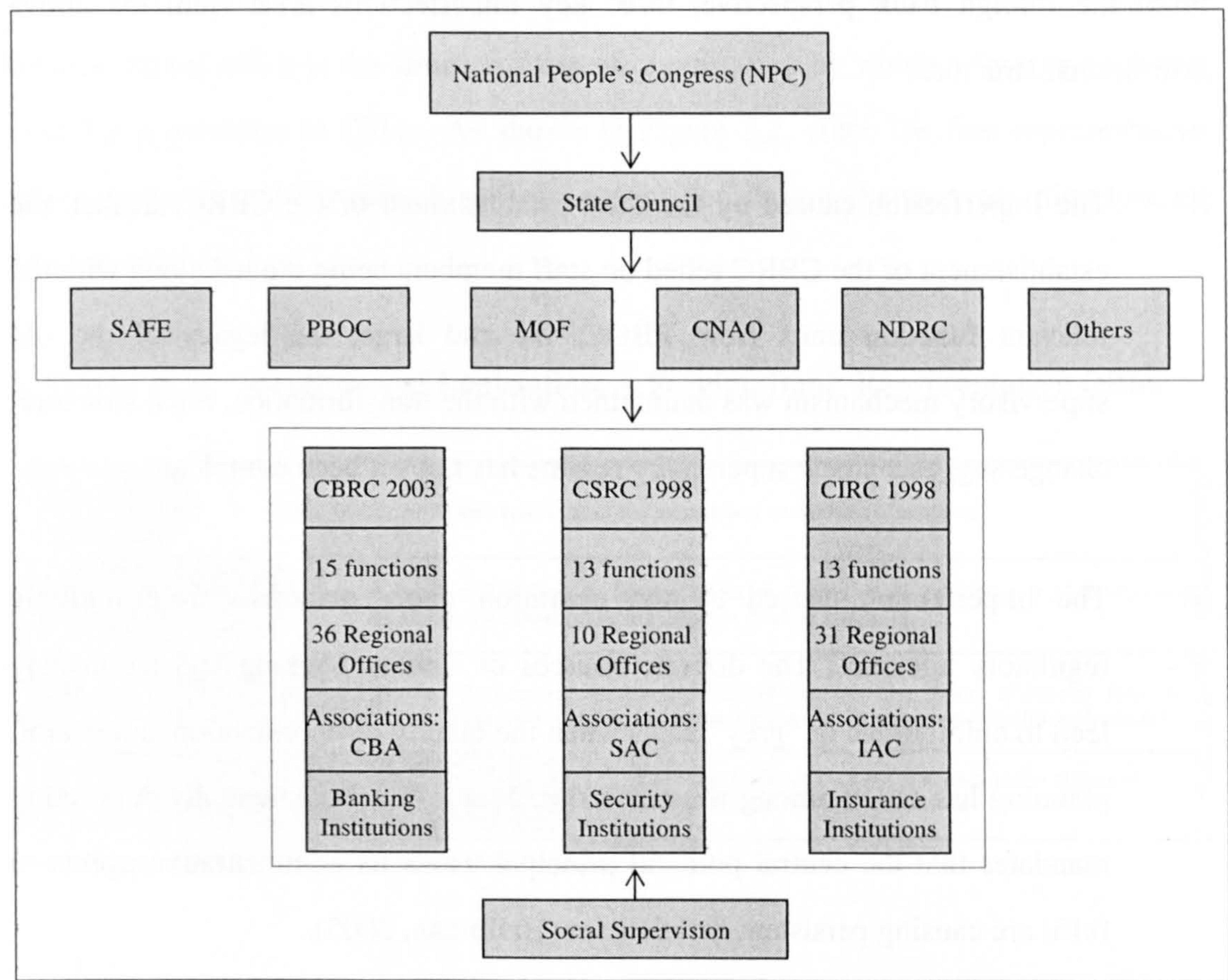
At the next level, foreign banks confront regulators from three dimensions. First, foreign banks are under the regulation and supervision of the China Banking Regulatory Commission (CBRC)¹⁰, which is an independent government agency concerned with the regulation and supervision of foreign banks. Liu Mingkang (2004), the Chairman of CBRC, described the establishment of CBRC as a response to the challenges posed by entry to the WTO.

Second, foreign banks are under the governance of various government administrative agencies. The government administrative agencies include the Ministry of Finance (MOF), the State Administration of Foreign Exchange (SAFE), the People's Bank of China (PBOC), the National Audit Office of the People's Republic of China (CNAO), and the National Development and Reform Commission (NDRC). These government agencies are directly or indirectly engaged in the regulation or supervision of foreign

¹⁰ Before 2003, the People's Bank of China (PBOC) took the supervision responsibility of bank financial institutions based on *The Law of the People's Republic of China on the People's Bank of China* (hereinafter referred to as the PBOC Law), promulgated in 1995. In 2003 the supervisory responsibility was transferred to the newly established CBRC according to *The Decision on Institutional Restructuring of the Government Agencies under the State Council*.

banking in China.

Figure 3. 1 Financial Regulatory Institutions



Note: Compiled by the author, the diagram gives a general view of the institutions related to the financial regulators in China. The specific relations among those regulatory institutions are not reflected in this general picture.

Source: Based on description in *Financial Services in China* (2005); Websites of each organisation's entities including: i) MOF which is mainly responsible for public finance, tax and accounting management. (<http://www.mof.gov.cn>); ii) SAFE which mainly designs, implements, and analyses the balance of payment and foreign exchange position. (<http://www.safe.gov.cn>); iii) CNAO which is mainly responsible for controlling public finance and monitoring the economy. (<http://www.cnao.gov.cn>); iv) NDRC which is the macroeconomic management agency for formulating policies for economic and social development and the overall economic system restructuring and others. (<http://en.ndrc.gov.cn>); v) CBRC (<http://www.cbrc.gov.cn/>); vi) CSRC (<http://www.csrc.gov.cn/>); vii) CIRC (<http://www.circ.gov.cn/>); viii) CBA (<http://www.china-cba.net/>); ix) SAC (<http://www.sac.net.cn/>); x) IAC (<http://www.iachina.cn/>).

Third, foreign banks must abide by the segregated financial regulatory institutions represented by CBRC, CSRC (China Security Regulatory Commission) and CIRC (China Insurance Regulatory Commission). Each has local offices nationwide. Each is also responsible for the related association of the industry, i.e., the China Banking

Association (CBA), the Security Association of China (SAC), and the Insurance Association of China (IAC).

From the foreign bank perspective, three key imperfections arise from the above institutional structure:

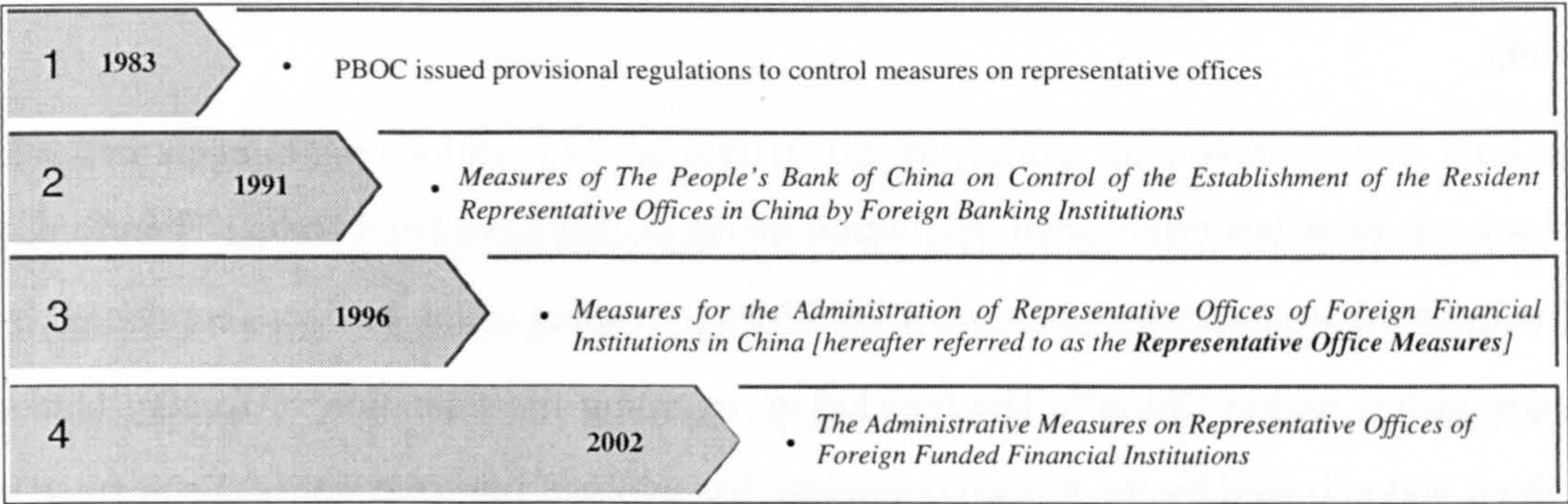
- i) The imperfection caused by the short establishment of the CBRC. In fact, the establishment of the CBRC relied on staff members being moved along with the relevant function units from PBOC. By and large, the legacy of the old supervisory mechanism was maintained with the transformation. Such structural change suggests a new supervisory regime has not yet been completed.
- ii) The imperfection caused by the operation under mandates from multiple regulatory agencies. The discrete sources of foreign banking legislation may lead to ambiguities or “grey” areas when the quality of coordination and overall planning has failed among the ministries. Moreover, the potentially conflicting mandates that the central political principal wants its administrative agents to fulfil are causing persistent deficiencies (Heilmann, 2005).
- iii) The imperfection caused by a lack of detailed guidance. Under an hierarchical legislative framework, the legislation for foreign banks consists of “laws” enacted by the NPC or NPC’s standing committee, “regulations” issued by the State Council and “administrative regulations and rules” enacted by the central government ministries under the State Council. In most cases, the more superior the level of legislation, the more general the content of the legislation. Therefore, implementation regulations or rules are often enacted at a junior level to supplement the superior legislation or regulations.

3.3 Entry Mode Control for Foreign Banks

3.3.1 Representative Office

Representative office is the simplest form of organisation by which a foreign bank can establish a presence in China. As shown in Figure 3.2, since the first representative office appeared in 1979 there have been several legislation changes regarding foreign representative offices.

Figure 3. 2 Evolution of Legislations – Foreign Bank Representative Office



Source: CBRC (<http://www.cbrc.gov.cn/english/info/rules/index.jsp>).

The legislation has evolved through four stages. At the first stage there were only the provisional regulations regarding the representative office. Until 1991, relatively formal rules were promulgated. In 1996, the regulations set out the approval authority, scope of operations, application procedures and operational concerns governing foreign bank representative offices in China. In 2002, the rules were updated to simplify the examination and approval process.

Although confined to non-operational activities¹¹, the representative office has its special role for foreign banks in China. First, representative offices are an invaluable mechanism for both understanding the Chinese market and liaising with the government. Second, setting up a representative office is a prerequisite for a foreign bank to establish a branch.

3.3.2 Operational Presence

A foreign bank can adopt three operational forms: the foreign bank branch, the joint equity bank, or the solely-owned foreign bank, according to *The Company Law of the People's Republic of China* (hereinafter referred to as the Company Law)¹² enacted in 1993.

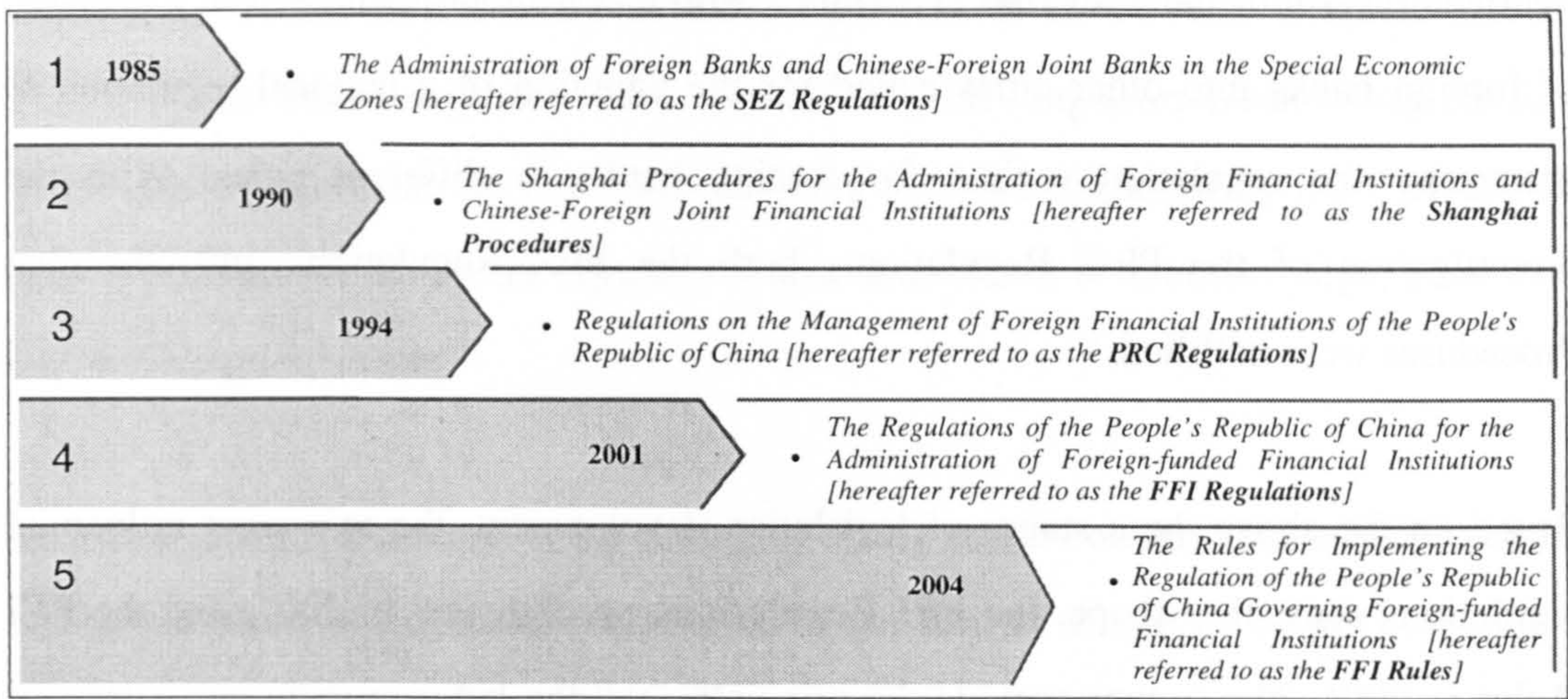
However, branches established by foreign banks do not have legal status. Therefore, a foreign bank at home must bear civil liabilities in respect of the business conducted by its branches within China¹³. The legislation regarding the operation of foreign banks, which is dominated by the branch operation, has evolved into five stages. Each stage is represented by regulations either replacing or supplementing the previous one. These five milestones are shown in Figure 3.3.

¹¹ According to Article 12 in the Representative Office Measures of 1996, representative offices may not enter into any agreement or contract that could result in income to the representative office, nor may they engage in any other operational activities.

¹² The Company Law was promulgated in 1993, amended in 1999 for the first time and in 2005 for the second time.

¹³ Article 13 in the Company Law (2004).

Figure 3.3 Evolution of Legislation – Foreign Banks



Source: CBRC (<http://www.cbrc.gov.cn/english/info/rules/index.jsp>).

The first stage in the evolution of the legislation concerning the governance of foreign banks was the **SEZ Regulations**, set down in 1985. The SEZ Regulations were promulgated three years after the first foreign bank was established in China. In retrospect, the SEZ Regulations allowed foreign banks quite a wide scope of business. Besides traditional banking business, foreign banks were allowed to deal in stock, securities and the provision of trust services and were even able to do local currency business.¹⁴

The second important regulation was the **Shanghai Procedures** enacted in 1990. Pursuant to the Shanghai Procedures, foreign banks were, for the first time, allowed to proliferate into a non-SEZ coastal city. The Shanghai Procedures *per se* contained stricter constraints in some respects than the SEZ Regulations. In particular, foreign banks were prohibited from gaining a foothold in any business denoted by local currency and limited to conducting activities connected only with foreign exchange business.

¹⁴ Article 6 in the SEZ Regulations.

The third stage was the PRC Regulations of 1994. The PRC Regulations were the national version of the Shanghai Procedures with a few modifications. The expansion of foreign banks into other cities called for the adoption of a national regulation to harmonise the regulation regime for foreign banks in different cities. With the promulgation of the PRC Regulations, both the SEZ Regulations and Shanghai Procedures were nullified.

Based on the above three stages of legislation development, the two most influential regulations came into shape, the FFI Regulations promulgated in 2001, and the FFI Rules in 2004. The former provide the principles and the latter provide more detailed guidance for foreign banking in China. The evolution of the five stages reflects the liberalisation processes for foreign banking in China.

3.3.3 Equity Investment

Until 2003, there was no law or regulation providing any specific legal basis for a foreign bank to purchase stock in Chinese commercial banks. In 2003, *The Administrative Rules Governing the Equity Investment in Chinese Financial Institutions by Overseas Financial Institutions* (hereafter referred to as the Equity Investment Rules) were enacted by CBRC. Thus, since 2003, foreign financial institutions (FFIs) have been provided with their first clear guidance for equity investment in the Chinese banking sector.

The control by the government on foreign bank entry was applied through two instruments. One is the qualification requirement set for the investor¹⁵. The investor must have shown profits in the preceding two accounting years and the capital adequacy ratio of a commercial bank must be at least 8 per cent in compliance with the

¹⁵ Article 7 in the Equity Investment Rules.

international convergence of capital requirement. The total capital of a non-bank financial institution must not be less than 10 per cent of its total risk-weighted assets. Finally, the investors must also have received a good long-term credit rating for the previous two years from an international rating agency recognised by the CBRC. All these conditions are set by the regulator whose intention it is to attract large, good and famous foreign investors.

The other control instrument is the ceiling of equity share. Foreign bank equity holding in Chinese banks is subject to a ceiling of 25 per cent or a limit of 20 per cent in the case of a single foreign financial institution buying the equity stake. This control reflects the regulator's principle to take advantage of foreign investment in financial reform. Wu (2006:2), the vice-governor of the PBOC, explains the aim of the principle as being for "long stake holding, governance improvement, business cooperation and avoiding peer competition" in attracting strategic investors.

3.4 General Supervisory Constraints

3.4.1 Restrictions on Licensing

According to the FFI Regulations (2001) and FFI Rules (2004), foreign bank¹⁶ applicants shall meet at least the following conditions to access the Chinese banking market; these are: i) be a financial institution; ii) have maintained a representative office in China; iii) hold a minimum amount of total assets; iv) have invested minimum registered capital; and iv) have effective supervision by the regulatory authorities in the home country. A comparison of market access under the three operational entry forms is shown in Table 3.1.

¹⁶ According to Article 2 in the FFI Regulations (2001), "foreign banks" refer to a foreign bank branch, a solely foreign-funded bank, or a joint-equity bank.

Table 3. 1 Incorporation Conditions of the Foreign Bank

Incorporation Conditions	Foreign Bank Branch	Joint-equity Bank	Solely-foreign-funded Bank
<i>Being a financial institution</i>		required	required
<i>Maintained a representative office in China</i>	≥ 2 years	required	≥ 2 years
<i>Total assets at the end of the year prior to application</i>	\geq USD 20 billion and CAR $\geq 8\%$	\geq USD 10 billion	\geq USD 10 billion
<i>Minimum registered capital</i>	convertible currencies equivalent to RMB 100 million yuan	convertible currencies equivalent to RMB 300 million yuan	convertible currencies equivalent to RMB 300 million yuan
<i>Sound supervision system of the home country or region</i>	required	required	required
<i>Note:</i> 1) The registered capital for a foreign bank branch refers to the operating capital from its head office, which is the non-collectable allocation of freely convertible currencies equivalent to the amount of RMB; 2) CAR refers to capital adequacy ratio.			
<i>Source:</i> Articles 5, 6 , and 7 in the FFI Regulations (2001).			

For all the three entry forms, an applicant must have maintained a representative office for a certain number of years. Fu (1998:210) comments that this requirement has highlighted the cautious attitude of PBOC to the removal of the restrictions on foreign bank entry. The operation through representative office may be regarded as a “probation period” during which time the PBOC is able to evaluate the conduct of the foreign banks before they can be upgraded into any of the three forms of operation.

A minimum assets requirement is attached to the granting of the licence or authorisation for foreign bank entry. Obviously, foreign banks of a solid financial strength in terms of total asset size are expected by the regulator to enter into the Chinese market. Foreign branches are legal extensions of the parent bank, which means, “creditors have claims on the assets of the parent bank” (Fu, 1998:109). Thus, a higher total asset size is required for the branch than for the other two entry forms.

Also, minimum registered capital is required for foreign bank entry in order to “ensure the foreign financial institutions are able to maintain a reasonable level of financial strength so as to carry on banking business in a sound and efficient manner” (Fu, 1998:210). In comparison, a foreign branch has a more relaxed control in this regard. This requirement suggests that, as a mode for initial market entry, the branch is relatively less expensive than the other two entry channels.

3.4.2 Restrictions on Business Scope

In terms of business scope, the segregated regulation principle has been adopted after the financial disorder due to banks’ engagement in the bond market at the end of 1992 (Xia, 2001)¹⁷. Under the existing financial regulations, the financial sectors are highly protected from inter-sectoral rivalry. Only in recent years have certain indigenous conglomerates been allowed to set up wholly-owned financial companies to provide banking and securities business on a trial basis. Foreign banks can only engage in insurance and securities business through the establishment of legally independent joint ventures.

According to the FFI Regulations (2001), in theory, foreign banks may undertake part or all types of business as listed in Table 3.2. However, in practice, the scope of business available is subject to various limitations with regard to customer type, currency denomination of the business, geographical coverage of business, and the specific conditions for extending business scope.

¹⁷ Pursuant to the *Commercial Bank Law of the People’s Republic of China* (hereafter referred to as the *Commercial Bank Law*) enacted in 1995, all commercial banks established in China were prohibited from securities businesses, and trust and investment activities.

Table 3.2 General Business Scope of Foreign Banks in China

1	Taking in deposits from the general public
2	Granting short-term, medium-term and long-term loans
3	Handling acceptance and discount of negotiable instruments
4	Buying and selling government bonds and financial bonds, and buying and selling foreign currency securities other than stocks
5	Providing letter of credit services and guaranty
6	Handling domestic and foreign settlement
7	Buying and selling foreign exchange and acting as an agent for the purchase and sale of foreign exchange
8	Exchange of foreign currencies
9	Inter-bank lending
10	Bank card business
11	Providing safe deposit box services
12	Providing credit and financial standing investigation and consultancy services
13	Other business operations approved by the People's Bank of China
<i>Source:</i> Article 17 in the FFI Regulations (2001).	

The business scope for foreign banks, as listed in Table 3.3, is also restricted in terms of the customer base and currency denomination of business operation. Relaxation of the relevant rules has only occurred in a phased way. After 1985, foreign banks were allowed to do business with foreign firms and individuals in foreign currency business. This situation lasted for about ten years but it was not until 1996 that they were allowed to provide local currency services to foreign firms, foreigners and personnel from Hong Kong, Macao and Taiwan.

For foreign currency business, there is no customer restriction for foreign banking following China's accession to the WTO in 2001. For local currency business, starting no later than two years after the accession, foreign banks were allowed to conduct business in domestic currency (i.e., RMB) to Chinese enterprises. Starting no later than five years after accession, their RMB business was expanded to include Chinese

individuals.

Table 3. 3 The Phased Liberalisation (1)

Market Segment	Customer Type	Currency Denomination of the Business	Commencement Date for Foreign Bank Operation
1	Foreign firms and individuals	Foreign currency	April 1985
2	Foreign firms and individuals	Local currency	December 1996
<i>China's access to the WTO in December 2001</i>			
3	Chinese firms and individuals	Foreign currency	December 2001
4	Chinese firms	Local currency	December 2003
5	Chinese individuals	Local currency	December 2006
<i>Source: Based on Leung and Chan (2006:222).</i>			

Further constraint was applied through geographical restriction. From the special economic zones, to the coastal opened cities and inland central cities, the process of opening up has progressed in a gradual and orderly way. As shown in Table 3.4, the number of cities open to foreign bank operation had steadily increased by the time the geographical restriction was removed at the end of 2006.

Table 3. 4 The Phased Liberalisation (2)

By Dec.11, 2002	By Dec.11, 2003	By Dec.11, 2004	By Dec.11, 2005	By Dec.11, 2006	After Dec. 2006
Shanghai	Guangzhou	Jinan	Kunming	Shandong	lift all geographical restrictions
Shenzhen	Qingdao	Fuzhou	Zhuhai	Ningbo	
Tianjin	Nanjing	Chengdu	Beijing	Shenyang	
Dalian	Wuhai	Chongqing	Xiamen	Xian	
<i>Source:</i> Wu (2006); Hansakul (2004:2); Huang (2004:2).					

Foreign banks have to increase their operation funds or registered capital in order to expand their business scope. Requirements for banking business with different customers and currencies are as shown in Table 3.5. For example, a foreign branch needs to satisfy the capital requirement of at least RMB 100 million to conduct foreign exchange business. For the same amount, a domestic Chinese bank can provide a full branch service (Leung and Chan, 2006).

Table 3.5 Capital Requirements for Business Expansion

Customer Type by Currency Denomination of the Business		Foreign Bank Branch	Wholly Foreign-owned Bank or Joint Venture Bank	Branch of a Wholly Foreign-owned Bank or Joint Venture Bank
<i>FX customer</i>	<i>RMB customer</i>	<i>operating capital</i>	<i>registered capital</i>	<i>operation capital</i>
Part	No	≥ RMB 100 million	≥ RMB 300 million	≥ RMB 100 million
All	No	≥ RMB 200 million	≥ RMB 400 million	≥ RMB 100 million
Part	Part	≥ RMB 200 million (including ≥ RMB 100 million)	≥ RMB 400 million (including ≥ RMB 100 million)	≥ RMB 200 million (including ≥ RMB 100 million)
All	Part 1	≥ RMB 300 million (including ≥ RMB 100 million)	≥ RMB 500 million (including ≥ RMB 100 million)	≥ RMB 200 million (including ≥ RMB 100 million)
All	Part 2	≥ RMB 300 million (including ≥ RMB 100 million)	≥ RMB 600 million (including ≥ RMB 200 million)	≥ RMB 200 million (including ≥ RMB 100 million)
All	All	≥ RMB 500 million (including ≥ RMB 300 million)	≥ RMB 1 billion (including ≥ RMB 600 million)	≥ RMB 300 million (including ≥ RMB 200 million)

Note: 1) "part" customers for foreign exchange (FX) business refers to "institutions outside China, foreign-invested enterprises, foreign representative offices resident in China, mainland representative offices of Hong Kong, Macao, and Taiwan companies, and foreigners and Hong Kong, Macao and Taiwan compatriots" and non-foreign-invested enterprises; 2) "part" customers for Renminbi (RMB) business refers to "foreign-invested enterprises, foreign representative offices resident in China, mainland representative offices of Hong Kong, Macao, and Taiwan companies, and foreigners and Hong Kong, Macao and Taiwan compatriots". "Part 1" customers also include partial RMB business with non-foreign-invested enterprises. "Part 2" customers also include all RMB business with non-foreign-invested enterprises.

Source: Based on Articles 31, 32, 33, 34, 35 and 36 in the FFI Rules (2004).

3.4.3 Restrictions on Specific Operation

The three types of operational establishment have to satisfy prudential supervision applied to their daily operation by CBRC. Some supervision requirements are set particularly for foreign banks, in contrast to the Chinese domestic banks – these are briefly discussed below.

i) Interest Rate Regime

In general, “there are no competitive interest rates, since the government not the market sets rates” (Tian, 2007:26). China has adopted several measures in order to liberalise its interest rate regime (Wei, 2001). For example, interest rates in the inter-bank market were liberalised in 1996 and the interest rate for large-sum foreign currency has been liberalised. Leung and Chan (2006) and Zhang (2005) note that the central bank also removed the cap on the local currency lending rate in late 2004 and has loosened local currency deposit rates by allowing banks to offer rates below the stipulated benchmark.

Under FFI Regulations (2001)¹⁸, the interest rate for deposits and loans, and the rates of various service fees of foreign banks shall be determined by the foreign bank in accordance with the relevant provisions. However, the dominance of the Chinese domestic banks has led to their control over the supply of local currency. As a result, the current interest rate regime does not allow banks to price their products according to risk assessment.

¹⁸ Article 22 in the FFI Regulations (2001).

ii) Control of the Sources of Funds

Under FFI Regulations (2001)¹⁹, the total amount of foreign exchange deposits taken within the Chinese territory by a foreign bank shall not exceed 70 per cent of its total foreign exchange assets within the country.

In addition, Imam (2004, cited in Leung and Chang 2006:226) note that, “China only allows foreign banks to borrow up to 150 per cent of their registered capital, and since December 2006 it has limited the amount of RMB that foreign banks can borrow in the inter-bank market to 40 per cent of their total RMB liabilities”. Due to the restricted access to funds in the local market, foreign banks have to rely on their head office for funds to be able to compete with their Chinese counterparts.

iii) Control of the Expansion of Local Currency Business

Under FFI Regulations (2001) and FFI Rules (2004)²⁰, 30 per cent of the RMB operating capital shall be placed as RMB interest-generating assets in the form of RMB state bonds or RMB term deposits with a term of not less than six months. Since a high percentage of operating capital has to be set aside as interest-generating assets, the business expansion in local currency by foreign banks is virtually controlled. In addition, “for a foreign bank branch, the ratio of the share of RMB assets in the total amount of its operating capital plus reserve to the share of RMB assets in its risk assets shall not be less than 8 per cent”²¹. By such restriction, the RMB business expansion is further constrained.

¹⁹ Article 30 in the FFI Regulations (2001).

²⁰ Article 24 in the FFI Regulations (2001) and Article 67 in the FFI Rules (2004).

²¹ Article 28 in the FFI Regulations (2001).

3.5 Special Control on Corporate Lending Business

Corporate lending is one of the traditional businesses of the banking industry. Because of the phased liberalisation, the lending businesses of foreign banks to local firms in foreign currency or local currency have been limited. The main corporate lending business of foreign banks in China has been mainly with the foreign invested enterprises in China and the business has been conducted primarily in foreign currency. Related to foreign banking, specific control instruments are identified which set both explicit and implicit constraints on the expansion of business for the foreign bank. These are: i) the control of the authority of local firms to evolve into borrowing in foreign currency; ii) the control of the scale of foreign debt; and iii) the control of guarantees to foreign creditors.

3.5.1 Control of the Borrowing Authority of Local Firms

The authority for a non-financial entity to borrow foreign currency loans is controlled in China. In 1997, SAFE promulgated *The Administrative Measures on Domestic Institutions Borrowing International Commercial Loans* (hereafter referred to as the **International Commercial Loan Measures**). Accordingly, the borrowing of foreign currency loans by Chinese entities from foreign banks is regarded as international commercial loans²². Pursuant to this rule, as shown in Table 3.6, a non-financial enterprise must overcome several hurdles before being considered eligible to borrow from a foreign bank.

²² According to Article 2 in the International Commercial Loan Measures (1997), the term “international commercial loans” refers to funds raised and borrowed by domestic institutions from financial institutions, enterprises, individuals or other economic organisations outside the Chinese territory or from financial institutions with foreign investment within the Chinese territory, which are subject to contractual obligation for repayment in foreign currency.

Table 3. 6 Conditions for Borrowing from Foreign Banks

1	to have been profitable in the preceding three-year period
2	to have permission to carry on an import/export business
3	to be in an economic sector encouraged by the state
4	to have a well-established financial control system in place
5	to have net assets of not less than 15% of total assets for a trading business, or net assets of not less than 30% of total assets for a non-trading business
6	to have aggregated balance of international commercial obligation and foreign-related security obligation of not more than 50% of net assets expressed in foreign exchange
7	to have an aggregated balance of international commercial loans plus foreign-related security obligations of not more than the foreign exchange revenue for the previous year

Source: Article 7 in the International Commercial Loan Measures (1997).

On top of these conditions, an international commercial loan agreement signed without the approval of the foreign exchange bureau shall be invalid. Shen (2000) argues that, because of the conditions imposed on non-financial firms in China, for them to borrow using international commercial loans, the number of pure domestic entities as qualified borrowers is limited. In response to the impact from qualification control, foreign banks normally extend loans directly to particular projects rather than to the domestic entities.

3.5.2 Control of the Borrowing Scale of Foreign Exchange

In relation to the control of internal commercial loans, another instrument for control is foreign debt control. Foreign debt control is introduced in the context of China having to strictly control the scale and structure of foreign debt in order to preserve a healthy international debt rating (Shen, 2000).

“Foreign debt” is defined as “the debts owed by domestic institutions to non-residents in the form of foreign currency”²³ according to *The Interim Measures on the Management of Foreign Debts* (hereafter referred to as the Foreign Debt Measures) enacted by the State Development Planning Commission (SDPC), MOF and SAFE in 2003. As far as foreign banking is concerned, the concept of “foreign debt” is also found in *The Provision Regulation for Statistics and Supervision of External Debt* (hereafter referred to as the Foreign Debt Statistics Regulation) promulgated by SAFE in 1987. Accordingly, “funds borrowed in foreign currency by borrowing units from banks with foreign capital and Chinese and foreign joint banks which are registered in China are regarded as external debt”²⁴.

The borrowing of foreign currency by a non-financial enterprise in China is controlled in two ways. In the case where the borrowers are domestic institutions, the long-term or middle-term international commercial loans shall be subject to approval by the SDPC and the short-term international commercial loans shall be subject to balance control under examination and approval by SAFE²⁵.

If the borrowers are foreign-invested enterprises, “the summation of the accumulated medium-term and long-term debts borrowed and the balance of short-term debts shall not exceed the surplus between the total investment in projects approved by the verifying departments and the registered capital.”²⁶ Within the range of the surplus, enterprises with foreign investment may borrow foreign loans. If the loans exceed the

²³ According to Articles 2 and 3 of the Foreign Debt Measures (2003), “foreign debt” shall be divided into “loans offered by foreign government, loans offered by the international financial organizations and international commercial loans.”

²⁴ Article 3 in the Foreign Debt Statistics Regulations (1987).

²⁵ Articles 15, 16 in the Foreign Debt Measures (2003).

²⁶ Article 18 in the Foreign Debt Measures (2003).

surplus, the total investment in projects shall be re-examined by the original examination and approval departments. In other words, the scale of borrowing by the FIEs, the main customer of foreign banks, is controlled.

3.5.3 Control of the Lending Scale of Foreign Exchange

In the Foreign Debt Measures (2003), “funds borrowed in foreign currency from abroad by banks with foreign capital and Chinese and foreign joint banks which are registered in China are not regarded as external debt”. “External debt”, interchangeably used with “foreign debt” in the Chinese language, is controlled according to *The Management Measures on External Debts of Foreign Capital Banks in China* (hereafter referred to as the External Debt of Foreign Bank Measures) promulgated by NDRC, PBC and CBRC in 2004.

Restriction on the external debt of foreign banks is applied because of domestic monetary policy concern. Foreign banks cannot rely on local sources of funds. Instead, they act to a large degree as conduits for international monetary flows. Due to their heavy reliance on foreign sources of funds, their liabilities are subject to variations that may have an impact on domestic monetary policy.

Pursuant to the External Debt of Foreign Bank Measures, the total sum of external debts including the mid-long term and short term of foreign capital banks²⁷ in China is jointly controlled by the NDRC, CBRC and SAFE. Each year, “if the contract term of borrowing external debts of foreign capital banks is a mid-long term one of more than one year, the arisen sum is checked and approved annually by NDRC. If the contract term of external debts is a short-term one below one year, the remaining sum is checked

²⁷ Article 2 in the External Debt of Foreign Banks Measures (2004), foreign capital bank refers to “the bank with exclusive foreign capital, sino-foreign joint venture banks and branches of foreign banks established in China”.

and approved by SAFE”²⁸. In addition, the remaining sum of short-term external debts at any point in the year must not exceed the remaining sum checked and approved by SAFE²⁹.

3.5.4 Control of the Guarantee Provided to Overseas Creditors

The last control is applied on guarantee, which has been the most important form of security for foreign lenders in securing foreign currency loans to Chinese entities. The issue of guarantees to support foreign currency indebtedness by Chinese entities has been controlled. The business in this area follows the 1991 *Measures for the Administration of Guarantees Overseas by Institutions within the Chinese Territory* (hereafter referred to as the Old Overseas Guarantee Measures) and the 1996 new *Measures for the Administration of Guarantees Overseas by Institutions within the Chinese Territory* (hereafter referred to as the New Overseas Guarantee Measures). These rules tightened up government control over the granting of domestic institutions intending to grant any form of foreign-related security. There are three main control mechanisms including: precondition of guarantor, guarantee registration and guarantee ceiling.

First, organisations permitted to provide guarantees to foreign organisations are limited to³⁰: i) financial institutions being approved and empowered to make guarantee overseas (excluding foreign-capital financial institutions) and ii) non-financial enterprises’ legal persons having the capacity to surrogate repayment of debts, including Chinese enterprises and foreign-capital enterprise. Here “foreign-related guarantee” refers to any forms of permissive guarantee granted by “Chinese domestic institutions” in favour of “foreign parties”. Second, both non-financial institutions and

²⁸ Article 5 in the External Debt of Foreign Banks Measures (2004).

²⁹ Article 8 in the External Debt of Foreign Bank Measures (2004).

³⁰ Article 4 in the New Overseas Guarantee Measures (1996).

financial institutions shall make a foreign exchange guarantee registration once the guarantee is made. If the guaranteed debt changes, they also need to submit a change and information record sheet to the local authority within the specified time³¹. Third, the guarantee ceiling is also controlled in different scenarios as listed in Table 3.7.

Table 3.7 Guarantee Ceiling Control

Different Situations	Guarantee Ceiling
The guarantor is a financial institution	the combined balances of guarantees made overseas, foreign exchange guarantees within Chinese territory and foreign exchange debts cannot exceed 20 times its foreign exchange funds
The guarantor is a non-financial institution legal person	the balance of guarantees made overseas provided by it cannot exceed 50% of its net assets or its foreign exchange revenue in the preceding year
In the parent-subsidiary relationship	a Chinese enterprise can only provide guarantees for the sub-divisions directly under it
In the joint stock relationship	a Chinese enterprise of a joint stock enterprise can only provide a guarantee for the foreign debts of the investment of the Chinese side
A Chinese trade enterprise provides guarantees overseas	the ratio between the net assets and total assets of the Chinese trade enterprise cannot be lower than 15% in principle
A Chinese non-trade enterprise provides guarantees overseas	the ratio between the net assets and total assets of the Chinese non-trade enterprise cannot be lower than 30% in principle
<i>Source:</i> Articles 5 and 6 in the New Overseas Guarantee Measures (1996).	

3.6 Chapter Conclusions

This chapter reviews the regulatory structure of the banking industry in China and its relationship to foreign banking. In terms of the regulators, potential imperfections exist in three dimensions, namely, the short independent supervision of CBRC, the fragmented and conflicting mandates imposed on foreign banks by different

³¹ Article 14 in the New Overseas Guarantee Measures (1996).

government agencies, and the lack of higher level guidance in the details.

From the legislation side, there is so far no all-inclusive foreign banking law that covers the whole access promulgated by the NPC. Therefore, the most frequently applied regulations and rules for foreign banking are from the State Council, CBRC, as well as other government agencies. Foreign banking laws have been only enacted at the lower legislative level.

Furthermore, the main regulations and rules have been updated alongside foreign banking development in China. In general, regulations and rules of foreign banking do not differentiate much between different operational establishments of foreign banks. The representative office is deployed as a special instrument by both the regulator and the foreign bank. The former may use it as a tool to control the speed of entry; the latter also requires it in order to understand China's market in all aspects first. In comparison, equity investment has been opened to foreign banks in a more cautious way.

A comparison of the three operational establishments suggests that the branch is the dominant entry form taken by foreign banks with concerns about cost of entry and speed of entry. However, the control of business scope and operation of foreign banks suggests that the branch platform will lead to a full play of their participation easily. The regulatory framework for corporation business in China shows that the operation of foreign banks in tapping into local businesses is not only constrained by direct regulations, but also by regulations indirectly imposed on the potential customers of foreign banks (Leung and Chan, 2006).

The overview of the regulatory structure in China demonstrates that an overall phased liberalisation of the banking market has been long and widely adopted. Mehran and Laurens (1997) argue that the speed of liberalisation is determined in the context of the

nation's overall reforms. Walker (1998:52) concludes that "foreign bank activities were highly restricted" in this context. In general, the review suggests that under both explicit rules and regulations and implicit institutional impact, the MNBs in China have been constrained to limited business activities and uncertain development in the future.

Chapter 4 The Literature Review on Strategic Entry Decisions of Multinational Banks

4.1 Introduction

This chapter provides the theoretical base of the research presented in this thesis through a literature review. The aim of the literature review is to understand the strategic entry decisions, or entry strategy, of the multinational banks and to identify factors that influence the formation of entry strategy.

Dunning (1977:444) defines multinational firms as “companies which undertake product activities outside the country in which they are incorporated”. In parallel, Gray and Gray (1981:37) define a multinational bank as “a financial corporation which requires deposits and initiates loans from offices located in more than one country”. By this definition, the MNB can be regarded as one type of multinational enterprise. Furthermore, this definition suggests the defining characteristic of the MNB is their involvement in foreign direct investment.

Scholars have argued that the literature on banks’ international growth relies on the theory of the MNE. Grubel (1977; 1985) argues that in fact the theory of multinational banking tries to answer the same question as presented in the case of foreign direct investment, which provides an explanation for the source of the comparative advantage of banks in foreign markets. Khoury and Pal (2000) also ascertain that the theoretical framework developed for understanding FDI in the manufacturing sector is still largely relevant to FDI in the financial sector.

However, banking FDI is argued to have its own characteristics. Jones (1990:8) argues that the banking sector is not merely one economic sector among many but has an

impact on other sectors. That is why government intervention “has been particularly extensive, and perhaps of a different dimension altogether”. Neuberger (1998:110) argues that, “the banking industry differs substantially from non-financial industries in the extent and kind of public policy which affect structure, conduct and performance”. Buckley *et al.* (1992) emphasise that the internationalisation of the banking product has different characteristics from the traditional manufacturing product. They suggest that conducting a separate analysis of the service MNE can help the researcher to identify the specific factors to “predict the behaviour of internationalizing service firms” (1992:54).

Based on the above considerations, theories of the MNB are reviewed in parallel with the theories of MNE. A comparative approach of the literature review aims not to challenge traditional international business theory, but to highlight the specific characteristics of the service MNE – in this thesis, the MNB. The literature review in this research therefore has three objectives: i) to review the generic theory of the MNE to define the entry strategy of the MNB; ii) to identify factors that influence each dimension of strategic entry decision; and iii) to deepen the understanding of the strategic entry behaviour of the MNB. The review is structured as follows.

First, the theoretical assumption behind the concept of entry strategy is discussed in Section 4.2 followed by an explanation of the four dimensions of the strategic entry decisions presented in Section 4.3. Section 4.4 focuses on the eclectic paradigm (Dunning, 1977) seeking to explain the formation of the entry strategy of the MNE. The eclectic paradigm is reviewed from three sub-paradigms, namely, the ownership-specific advantage (OSA), the location-specific advantage (LSA) and the internalisation-specific advantage (ISA). Each sub-paradigm is discussed with respect to the key concept that is adopted to define the sub-paradigm, the theoretical argument in the paradigm and the implications for the formation of entry strategy in the context of the MNE and the MNB. Section 4.5 presents conclusions drawn from the literature review.

4.2 Building the Concept of Entry Strategy

Theories of the MNE have not provided a conclusive definition of entry strategy of the MNE. In searching for an appropriate definition of entry strategy, literature from both the strategy and international business domains are reviewed. Four interrelated arguments are developed to build up the concept of the entry strategy for this research; these are: i) the role of entry strategy; ii) the distinction between the concept of “formulation” and “formation” of strategy; iii) the relation between strategy content and strategy process; and iv) the emphasis of the “top-down” or the “bottom-up” strategic approach.

The first argument focuses on the role of entry strategy. Hymer (1960) and Kindleberger (1969) assume that firms have to bear higher risks and costs of doing business abroad. Zaheer (1995:343) supports this argument with the concept of *liability of foreignness* (LOF), i.e., “all additional costs a firm operating in a market overseas incurs that a local firm would not incur”. Because of the liability of foreignness, the foreign investor may be exposed to competitive disadvantages compared with the local firms in the host market. Therefore, one of main roles of the entry strategy is to identify and sustain the firm-specific competitive advantages in the host market.

Firms are assumed to have global strategy in organizing their activities (Rugman, 1980:23). In sustaining the firm-specific competitive advantages, entry strategy may need to be adjusted by changing the perspective and position. In this thesis, the concept of internationalisation, based on Welch and Luostarinen (1988), was defined as “a process of increasing involvement in international operation across borders” (Melin (1992:101). Internationalisation is not an isolated event, but a process that can be viewed by stages based on the product life cycle model (Vernon, 1966) and the internationalisation process model (Johanson and Vahlne, 1977). Obviously, the global strategy needs to change in the process of internationalisation.

The second argument is regarding the distinction between “formulation” and “formation” of strategy. It is reasonable to assume that gaps exist between strategies that

are intended, i.e., the planned strategies, and strategies that are realisable, (the deliberate strategy). Under this assumption, Mintzberg *et al.* (1998:9) propose the concept of emergent strategy, to complete the concept of strategy by arguing deliberate strategy, has to be considered with emergent factors to form into the realised strategy. According to this argument, “strategy is a pattern” and “consistency in behaviour over time” formed under some sort of contingency.

Mintzberg *et al.* (1998:11) argue that it is rare to assume strategies are purely deliberate, containing no learning element, nor is it reasonable to assume strategies are purely emergent beings without control. In this context, the concepts of formulation and formation, although often used interchangeably, are different in theory. Deliberate strategy is viewed as formulated, while emergent strategy is seen as being formed.

The third argument concerns the relation between strategy contents and processes. The former highlights firms’ ability to predict what strategy is; the latter emphasises firms’ ability to react to the unexpected events in the process. Two examples of the definition of strategy have highlighted this argument. For example, Chandler (1962:13) defines strategy as “the determination of the basic, long-term goals and objectives of an enterprise, and the adoption of a course of action and the allocation of resources necessary for carrying out these goals.” This definition has been argued by Mintzberg (1978) to have treated strategy as a “plan”, which can be referred to as intended strategy only. Mintzberg (1978:935) emphasises that, “strategy in general, and realized strategy in particular” is “a pattern in a stream of decisions”. Accordingly, a strategy is considered to have formed “when a sequence of decisions in some area exhibits a consistency over time”.

Whittington (1993) emphasises that strategy contents and processes can be viewed together with different degrees of agreement to either dimension. Regarding the strategy contents, simply referred to as the “outcomes” of strategy, people might perceive strategy differently, depending on the extent of agreement, from the idea that strategy produces profit-maximising outcomes or deviates to allow other outcomes. Regarding strategy processes, people may also have different perceptions depending on their view

of how strategy is formed, i.e., whether “strategies are the product of deliberate calculation or whether they merge by accident, muddle or inertia” (1993:2).

The fourth argument concerns the emphasis regarding the “top-down” or the “bottom-up” approach of the concept of entry strategy. Strategy is assumed to be made at different organisational levels of the MNE, from the corporate globally to the business unit locally. Dunning (1993:186) defines business strategy as the “deliberate choice taken by the entrepreneurs or managers of firms to organize the resources and capability within their control to achieve an objective or set of objectives over a specified time period”. It is hard to know from this definition at which level of the organisation strategy is viewed.

The emphasis on the strategy process suggests the importance of the implementation of strategy. Johanson and Vahlne (1990:20) state that, “internationalization processes are the result of a mixture of strategic thinking, strategic action, emergent developments, changes and necessity”. Gupta and Govindarajan (1984:25) also argue that, “strategy formulation and implementation take place not just at the level of the diversified firm as a whole, but also at the level of the divisions/strategic business units (SBUs)”. Peng (2000) explains straightforwardly – strategy is formed from the outcome of a stream of smaller decisions from the bottom up.

To conclude the exploration of the strategy concept, four attributes are incorporated into the definition of entry strategy for this research. First, the role of entry strategy is to realise the competitive advantage in the host market. To achieve this goal, entry strategy needs to be adjusted at different stages of the internationalisation processes. Second, entry strategy is both formulated and formed. The former suggests what can be predicted in the strategy process, the latter indicates how emergent factors can be taken into consideration. Third, it is less likely for the MNE to formulate an explicit entry strategy in advance. Strategy as a pattern of decisions needs a process of formation. Fourth, especially in an environment of uncertainties, the implementation at the business level is important for the formation of entry strategy.

With the above considerations, the definition of entry strategy adopted in this thesis is in line with the summary of strategy by Peng (2000:3). Accordingly, “strategy is not a rule book, a blueprint, or a set of programmed instructions. Rather, it is the unifying theme that gives coherence and direction to various decisions made by an organization and its top leaders”.

4.3 Strategic Entry Decisions for International Markets

Based on the concept of entry strategy derived from Peng (2000) this section focuses on various decisions made by the MNE for international markets. A large proportion of the literature explains how companies enter foreign markets, focusing on the entry mode selection (Bouquet *et al.*, 2004). To some extent, the entry decision is interchangeably used with the entry mode decision (e.g., Buckley and Casson, 1998; Meyer, 2004). However, it must be appreciated that any entry decision concerning the international market is a multidimensional issue.

According to Root (1982:34) firms make five interrelated decisions for foreign market entry: i) the choice of a target product/market; ii) the objectives and goals in the target market; iii) the choice of an entry mode to penetrate the target country; iv) the marketing plan to penetrate the target market; and v) the control system to monitor performance in the target market.

The above elements of entry decisions are trying to cover the “why”, “where”, and “how” issues of the FDI. Root (1982; 1994) has perhaps given less emphasis to the “when” issue of the FDI. However, the “when” issue can be argued to be embedded already from each of the above concerns. Although Root (1994) addresses the fact that entry strategy is iterative with many feedback loops, the five decisions are discussed as the planning and design for the entry strategy, which does not reflect the definition of the entry strategy in this thesis.

In addition, the five decision elements overlap to some extent. They can be simplified and reframed into four dimensions. Given that entry strategy in a specific host country market is the interest of this study, the location decision, or the choice of market is not

defined into the content of strategic entry decisions, although the market choice is no less important than the other aspects of entry decisions. Because of its importance, the following literature review still covers the argument regarding location decision as much as necessary. The study of entry strategy in this thesis is to explain the patterns emerging with consistency among the relationship of decisions in the following four dimensions.

- Entry Motive Decisions
- Entry Mode Decisions
- Management Control Decisions
- Marketing Orientation Decisions

4.3.1 Entry Motive Decisions

The entry motive decision is concerned with why a firm would wish to operate outside its home country. Whittington (1993) argues that it is oversimplified to take profit maximisation as the sole objective of the firm. In reality, other objectives may take precedence over profit under certain conditions. In relation to this, Dunning (1993; 2000b:164) concludes that there are four types of entry motives; these are: i) market seeking; ii) efficiency seeking; iii) strategic asset seeking; and iv) resource seeking. Each motive represents a type of foreign production activity.

Market seeking is perhaps the most common motive for international expansion. Good opportunities abroad, lack of opportunities at home, regulation (Gray and Gray, 1981) or poor profitability (Williams, 1998) may drive firms to seek a new, and probably foreign, market to service. Such geographical expansion may enable a market leader to maintain and extend its pre-eminent position.

However, the concept of a market seeking motive for the MNE is perhaps too general to underpin the entry issue for the MNB and it has to be considered in specific segments. According to Grubel (1977), banking can be distinguished by three different segments: wholesale banking, retail banking and service banking. The three segment pillars are applicable to multinational banks as well.

Seeking the market through wholesale banking differs dramatically from retail banking. Neuberger (1998) describes wholesale banking products as relatively homogeneous, having mainly large corporate customers. In this segment, there is little or no scope for banks to exert market power. The switching costs are low and large corporations usually have access to alternative suppliers. The entry barriers into the markets are relatively small. Therefore, wholesale banking markets have properties of contestability. In contrast, retail banking products are heterogeneous (Neuberger, 1998). The main customers are households and small-and medium-sized firms. Retail banking customers are usually badly informed about the range of services available. Since gathering information is costly for customers the demand for substitutability is low.

Particularly regarding international retail banking, Tschoegl (1987) argues that knowledge about local conditions is an important input in multinational retail banking. Williams (1997:77) also notes that, “regulatory structure is an important determinant of multinational retail banking”. As a consequence of both a lack of knowledge and constraints imposed by the government of the host market, MNBs do not make a push into retail banking (Tschoegl, 1987).

Efficiency seeking drives firms to concentrate or switch production in favour of the most cost-effective locations. Firms may find that operating in a foreign market enables them to exploit economies of scale that cannot be obtained in the open market due to various market failures. Dunning (1988:3) argues that, “the greater the perceived costs of transactional market failure, the more MNEs are likely to exploit their competitive advantages through international production rather than by contractual agreements with foreign firms”.

The efficiency seeking motive suggests that the establishment of banks offshore generates cost efficiency of production. Gray and Gray (1981:42) argue that, “becoming multinational merely extends (these) economies of operation to new markets.” In other words, banks can realise additional economies of internal organisation from multinationalisation. However, Gray and Gray (1981:41) also point out “the advantage from internalizing a factor cost is not firm specific” in the banking sector, therefore, the

efficiency effect is difficult to be demonstrated.

Strategic asset seeking drives firms to invest in foreign markets for acquiring assets of strategic importance. Because of market imperfections, acquisition provides a vehicle to trade resources, which are otherwise non-marketable. The economic rationale is that acquisition shall add value to the acquiring firm, which depends on the strategic “fit” of the acquired assets with those already owned by the acquiring firm.

Banks are motivated to acquire a local bank in a new market. Based on the study of multinational banking in Eastern European Countries (EEC), Green (2002) suggests it is more appropriate to view banking acquisition as a means of market seeking, rather than a distinct motive in its own right. Therefore, strategic asset seeking in banking can be argued to be different from Dunning’s (1993) original explanation of the market seeking motive in the context of MNEs.

Resource seeking is perhaps one of the primary driving forces for firms to establish foreign activities. Firms target the natural resources in order to ensure a long-term supply which may not be assured in the open market. This motive is argued to be less dominant because of the increased “significance of non-material assets as creator of facilitators of wealth” (Dunning, 1998:47).

Gray and Gray (1981) argue that, as manufacturing firms need raw material, similarly banks need the local currency that is only available in a specific geographic location. Therefore, entry into the foreign market ensures continuity in supplying certain currencies. This argument might have been true in the past, but it is weakened because the existence of supranational currency markets allows banks to trade freely to meet their currency requirements.

4.3.2 Entry Mode Decisions

The entry mode decision concerns the “institutional arrangement(s) for the foreign market” (Anderson and Gatignon, 1986) or the “level of governance” (Tallman, 1992). Chang and Rosenzweig (2001) emphasise that, “the choice of entry mode is an

important part of a firm's foreign investment strategy". The key concern is about which entry mode is appropriate compared with different options available in a foreign market.

The entry modes for FDI are distinguished by three forms based on ownership and the magnitude of ownership (Kogut and Singh, 1988): acquisitions, joint ventures (in which the entrants could be the majority, equal or minority partner) and greenfield investments (e.g., wholly-owned subsidiaries). The choice depends on the judgment of the risk and the benefits expected.

Each entry mode offers specific benefits and risks. For example, *acquisitions* may offer the fastest means of building a sizable presence in a foreign market, yet they are fraught with risks of overpayment, inability to fully assess the value of acquired assets, and post-acquisition integration. *Joint ventures* offer a way to draw on the resources of a local partner and to minimise risk, but also raise issues of managing a partner whose interests may diverge over time. *Greenfield investments*, i.e., "start-ups", offer the greatest control over the local affiliate, yet often require the longest time to establish, and require the greatest contribution of know-how.

A broad classification of the foreign presence in the banking industry is documented in Cho's (1985) study of the MNB in the U.S. banking market. Accordingly, the MNB can take several forms of entry including correspondent, international department, agency and representative office, overseas branch, foreign affiliate with majority ownership, and foreign affiliate with minority ownership. Each entry mode suggests a certain range of business scope in which the bank can get involved. Given the interest of banking FDI, the following discussion focuses on the entry mode with a physical presence in the host market.

The *representative office* is one form of presence with the least resource commitments (Heinkel and Levi, 1992). Kogut and Kulatilaka (1994) argue that representative offices act as an option to a market presence because exit expense is less. Representative offices assist and support the operation of the MNB by providing important market intelligence. Bain *et al.* (1997) explain that the existence of representative offices

improves the quality of correspondent relationships. However, since the operational activities of the representative office are restricted (Khoury, 1998), they do not replace the correspondent relationship.

A *foreign branch* is a pertinent organisational form in multinational banking (Heinkel and Levi, 1992). A branch is generally authorised to conduct the full range of banking activities. It is common that branches utilise group capital to finance local activities and also rely on group strength to cover risks. A branch usually has no legal identity. The parent bank is responsible for any action by the branch under the host market law (Cho, 1985). The adoption of branch mode enables the parent bank to have maximum control over operations in the host country. Branches may have limited network and unfamiliarity with the host market. In addition, they might not have enough deposit bases to operate economically.

A *foreign subsidiary* is separately incorporated in the host country, and has a legal entity from the parent bank. Therefore, the decision to establish a subsidiary is of a different nature to the choices between a representative office and a foreign branch (Bain *et al.*, 1997). According to Cho (1985), a bank usually has some degree of control over its subsidiaries in a host country with variation in the degree of ownership from the minority to one hundred per cent. In general, foreign bank subsidiaries resemble domestic banks in the host market. They provide a full range of banking services and face the same regulations as domestic banks, except that they are foreign owned.

The entry mode decision is made simultaneously with the choice of organisation structure, and hence the level of control (Gupta and Govindarajan, 1991; 2000). The control is based on the context of the investing firm and its presence in the host market. Hill *et al.* (1990) argue that the level of control is lowest in the case of licensing and highest in the case of a wholly-owned subsidiary. In the case of a joint venture, the level of control is dependent on the ownership split and the number of parties involved.

Without necessarily having a physical presence, a bank may enter into the foreign market via the acquisition of a majority or minority shareholding in a local bank. Cho

(1985:16) believes acquisition can provide the parent bank with the prospects for developing business and banking connections more easily than might be possible by going it alone or establishing a new banking institution. He argues that where strategy calls for comprehensive foreign retail networks, acquisition may be the more feasible alternative. However, Cho (1985) also notes that acquisition of a minority interest offers little opportunity for control and may offer limited potential for developing new business.

4.3.3 Management Control Decisions

According Child (1973:117), "Control is essentially concerned with regulating the activities within an organisation so that they are in accord with the expectations established in policies, plans and targets". Chang and Rosenzweig (2001:748) argue that, FDI "involves ownership and confers effective management control".

Management control decisions are made in order to deal with two conflicting pressures: the pressure of integration (I) and the pressure of responsiveness (R), i.e., the (IR) framework (e.g., Prahalad and Doz, 1981, 1987; Bartlett and Ghoshal, 1989; Nohria and Ghoshal, 1997). Birkinshaw (1997) emphasises that the MNE subsidiary, defined as the operational unit controlled by the parent company and located in the host market, has to be globally integrated and locally responsive simultaneously under the IR framework.

The definition of subsidiary in the context of the MNE is too general to describe the concept of subsidiary in the context of MNB. A subsidiary of a bank refers to a particular organisational form. To avoid confusion, the term *foreign business unit* (FBU) is adopted in the following discussion to represent what is meant by subsidiary in both the context of the MNE and the MNB.

Under the IR framework, the MNB has to have a control system to integrate the operation of its FBU with the parent bank while being responsive to the local conditions. Neuberger (1998) argues that bank managers have large discretionary power to pursue their own goals. Unfamiliarity with the host country introduces more risks for the parent bank to justify. Therefore, the control system seems to have more roles to play in the

context of MNBs than MNEs. Different control instruments can be adopted – the focus in this thesis is put on three control measures: i) structural control; ii) authority control; and iii) personal control.

Structural control demands organisational design (i.e., implementation requirement) to match with the selected entry strategy. According to Roth *et al.* (1991:370), “the administrative systems and capabilities of the organization must be designed to fit these requirements”. The structure of the MNE has been conceptualised in terms of alternatives such as area divisions, product divisions, function divisions, and some matrix combination of these alternatives (e.g., Herbert, 1984; Wolf and Egelhoff, 2002). Under the IR framework, the structural control determines the extent to which the FBU can integrate its structure with that of the parent firm.

In terms of structural control in banking, the control system has to ensure prudent operation processes regardless of the type of organisation structures. In other words, whether the structure is focusing on area division, product division, function division, or a mixture of these, the bank needs the control system to mitigate different risks. Hence, the argument on structural integration between the parent firm and the local business unit in the context of MNE cannot be made in a simple parallel way in the context of multinational banking.

Authority control means that “authority over operational and strategic decision-making” is delegated to the subsidiary of the MNE in the foreign market (Hill *et al.*, 1990:118). Zaheer (1995:347) notes that in organisation theory, a bureaucratic control system is “a system of control based on rules and on the legitimacy of authority rather than prices”. Under the IR framework, an FBU with fully-delegated authority potentially faces the principal-agency problem (e.g., Chang and Taylor, 1999; O'Donnell, 2000). By contrast, a “headless” (Mintzberg, 1979) or fully integrated FBU is unlikely to respond to the local market conditions promptly.

In international banking, the authority assigned to management in the FBU is different depending on different entry modes. Authority is delegated with caution in the case of

branch operation (Rose and Hudgins, 2005). The branch is directed by policies and guidance from the parent bank. In so doing, operation of the branch is the same as is implemented in the home market. Such centralised control is accompanied by strict delegation of authority. For example, a management team has limited authority to make decisions on customer loan applications. In comparison, the authority of the managers in the subsidiary banks is different because a subsidiary has a legal identity in the host market.

Personal control involves placing a number of trustworthy personnel from the parent MNE in key positions in the host market (Child, 1973). Usually, expatriates are placed in upper and middle management positions (O'Donnell, 2000). According to Bouquet *et al.* (2004), international investment in the service sector has been found to rely heavily on the employment of expatriates. Baliga and Jaeger (1984) term personal control and expatriate assignment as “culture control” which is perceived as decentralised control.

In terms of personal control in foreign branch operation, banks can implement control either through the assignment of important personnel to the local branch for monitoring, or by sending expatriates to the foreign operational units. In this way, the culture of the parent bank at home is introduced to the local markets. The personal control might not represent a decentralised approach given the usual limited authority delegated to the local market.

The control relationship between the parent firm and the FBU is not static (Birkingshaw, 1997). Reliance of the FBU on the parent MNE for strategic resources might change because strategic resources are not only embedded internally in the MNE but also in the local market. Prahalad and Doz (1981) argue that, as subsidiaries become less dependent on strategic resources, the control through strategic resources by the parent of MNEs becomes uncertain. Such a relationship between the parent bank and its FBU has been less discussed in the context of MNB.

4.3.4 Marketing Orientation Decisions

The concept of marketing orientation or market orientation is derived from the marketing literature. According to Kohli and Jaworski (1990:1), marketing orientation is associated with marketing concept in three dimensions; these are: customer focus, coordinated marketing, and profitability. Customer focus means, firm goes beyond customer research by taking actions based on market intelligence rather than based on verbalised customer opinion alone; coordinated marketing means marketing is not solely the responsibility of marketing department but a coordination of a variety of departments to know customer needs; and profitability is the consequence of a marketing orientation.

As far as the service MNE is concerned, the concept of service is reviewed. According to Kasper *et al.* (1992:34), services are “originally intangible and relatively quickly perishable activities whose buying takes place in an interaction process aimed at creating customer satisfaction but during this interactive consumption this does not always lead to material possession”.

Kasper *et al.* (1999) argue that the fundamental characteristic of service is intangibility. The *intangibility* characteristic of service determines the other three characteristics, i.e., *inseparability* (or simultaneous production and consumption), *inconsistency* (or heterogeneity), and *inventory* (or perishability). Buckley *et al.* (1997) argue there is an additional characteristic, *ownership*, to highlight the fact that with many services, customers can only buy the right to use the service.

Regarding marketing orientation, Kasper *et al.* (1999:29) state that, “there are two strategies for service organization to internationalize”. The first step is “client following”, which means “the service provider will serve the foreign subsidiaries of the customer in their own country”. The next step is identified as “market seeking”, which means that “the service provider enters into new international markets to expand and serve new customers in foreign countries.” This concept of market seeking may overlap with the market seeking motive as argued in entry motive decisions of FDI (Dunning, 1993) as discussed in Section 4.3.1. The adoption of the same term in the literature is

not a coincidence. Rather, we may assume that because of the characteristic of the service industry mentioned already, the market seeking motive can be specified directly as seeking the customers.

The marketing orientation decision is argued similarly by the defensive expansion theory (e.g., Brimmer and Dahl, 1975; Kindleberger, 1983) of the MNB. By defensive expansion, banks may follow their customers abroad with the aim of not only generating profit in the new location but also, perhaps more importantly, of preventing losses in some pre-existing activities. According to Cho (1985), by following the customer, banks are laying the groundwork for much of the subsequent expansion.

Like other service MNEs in general, the concept of marketing orientation of the MNB seems to have put more emphasis on the customer than on the product for the foreign market. Gray and Gray (1981) argue that banking products, either in the domestic or foreign banks, can be quickly emulated. The short-lived advantage from product innovation suggests distinctive bank-client relationships are more important than the product *per se*. Boddewyn *et al.* (1986) distinguish between three types of service product: i) foreign tradable services; ii) location bound services; and iii) combination services. All three types of product are found in the banking industry, indicating different levels of interaction between banks and clients in the delivery of banking services.

4.4 Eclectic View of the Formation of Strategic Entry Decisions

4.4.1 Eclectic Paradigm

In this section, factors that influence the formation of strategic entry decisions are studied. As discussed in Section 4.2, strategy “is the unifying theme that gives coherence and direction to various decisions made by an organization” (Peng, 2000:3). In searching for an explanation of the relationship among entry decisions, this review has tried to identify a theoretical framework which is able to integrate the four dimensions of the strategic entry decisions.

Root (1994) put different strategic decisions into a framework, but this is not suited to this study because the framework is aimed at the design and planning of the entry strategy. It allows little opportunity to explore how emergent factors work on the formation of decisions. The difficulty in identifying an appropriate framework is not surprising. Bruton *et al.* (2004) conclude that the field of international strategic management has been infused with various theories, but lacks frameworks.

Given the comment above, the eclectic view (Dunning, 1977) has offered multifaceted perspectives to explain the “why”, “where” and “how” of FDI. The adoption of the eclectic framework for this study is supported by Grosse (2004:83) who comments that the eclectic framework has provided “the most useful approach to understand the activities of MNEs”.

According to Dunning (2001:276), “the extent, pattern, and form of IB (international business) activity will depend on the juxtaposition behaviour of three sets of advantages”. The three enabling factors for foreign production and competitive advantage are firm-specific advantages, or ownership-specific advantages (O) (i.e., rent-producing firm skills), the location factors (L) (i.e., environmental differences) and the internalisation advantage (I) (i.e., transaction-related concerns). The three factors form the eclectic paradigm, also known as the OLI paradigm.

Dunning (2001: 177) emphasises that, “each and every OLI variable identified by the eclectic paradigm is well grounded in economic and organizational theory”. Reviewed by Wilkins (2003), the sub-paradigm of ownership-specific advantages was derived from theories of industrial organisation and resource-based theories of the firm. The sub-paradigm of location-specific advantages is attributed to location theory and institutional theory. The theoretical base of the internalisation-specific advantages is found in the theory of the firm.

Grosse (2004) highlights the three most important theoretical bases that have been deployed by the eclectic paradigm and called them a three-dimensional theory of the MNE. They are the resource-based view (RBV) and the institutional theory as well as

the internalisation theory underpinning the three sub-paradigms of the eclectic framework respectively. Literature on each sub-paradigm is reviewed below bearing in mind three issues: i) the definition of the key concept of the sub-paradigm; ii) the theoretical argument behind the sub-paradigm; and iii) the implication for the formation of strategic entry decisions in each sub-paradigm.

4.4.2 Implications from the Ownership-specific Advantages

Ownership Sub-Paradigm

The eclectic paradigm identified two types of ownership-specific advantage (OSA) (Dunning, 2000b). The first type of ownership advantage pertains to the resource structure of the firm, which relates to the intangible asset advantage (O_a). The second type of ownership advantage pertains to the advantage of organising the O_a with complementary assets, referred to as the transaction cost minimising advantage (O_t).

According to Dunning (1988:2), O_a can “only occur in a situation of structured market distortion”. It is the advantage of the MNE relative to other enterprises. O_t arises from “the common governance of a network of O_a located in different countries”. Dunning (2001:176) explains further that O_a advantages “arise either from the firm’s privileged ownership of, or access to, a set of income-generating assets,” while O_t advantages emphasise firms’ “ability to co-ordinate these assets with other assets across national boundaries in a way that benefits them relative to their competitors, or potential competitors”.

Gray and Gray (1981) argue that the existence of ownership-specific advantages is assumed for any banking organisation. For a bank to enter into a foreign market, it must be able to provide some specialised services or have certain advantages to enable it to profit from an extension of its operations into the supranational or other national market. However, based on Casson’s (1990) view, Williams (1997:77) comments that, “there are few opportunities for monopolistic advantages for banks”. In the absence of regulative forces monopoly power is difficult to retain because bank products are difficult to patent. Also, the expertise in banking can easily be hired out by innovative banks.

Resource-based View and Ownership-specific Advantages

Tallman (1991) argues that firms' resources are approximately what Dunning (1977) means by ownership factors of the MNE. The resource-based view (Wernerfelt, 1984; Barney, 1991) develops the notion that a firm's competitive advantage is generated internally rather than determined by the industry (Capron and Hulland, 1999). The RBV focuses on attributes of a firm's resources and capabilities that are "valuable, rare, imperfectly imitable and not substitutable" (Barney, 1991; Barney *et al.*, 2001:625).

Carpano *et al.* (2003:156) argue that the resource suggested by Barney (1991) is applicable to the international context. Peng (2001) argues that in order to sustain competitive advantage, firm-specific advantages need to be both exploited and developed in the context of international business. Luo (2000) supports the idea that as firm-specific resources are exploited in a foreign host market, new resources and capabilities are simultaneously created. Grosse (2004:90) comments that, "there is nothing inherently international about the RBV, other than the fact that some resources can pertain to multinationality".

Although resources can be both tangible and intangible, studies tend to address intangible resources in the MNE context. For example, Amit and Schoemaker (1993) argue that network ties are important strategic resources in the multinational context. Moreover, based on the argument of Nahapiet and Ghoshal (1998), Bruton *et al.* (2004:416) explain that, "a social network of relationships is difficult to transfer, history dependent, and time consuming to nurture". Knowledge resource is another example. According to Kogut and Zander (1993), the existing knowledge of MNE is both exploited and enhanced. One further example is experience-based learning ability, which is emphasised to suit international competition (e.g., Barkema and Vermeulen, 1998; Delios and Henisz, 2000). Also, Zander and Zander (2005:1520) argue that established customer relations are important resources in the international market.

The above argument is found in the context of MNB. Banks are presumed to possess and exploit a bundle of unique resources and capabilities. According to Cho (1985:62) the main source of banks' ownership-specific advantages can be viewed in a number of

dimensions, these are: i) size of a bank; ii) access to funding sources of major currencies; iii) knowledge and experience in multinational banking operations; iv) knowledge and experience of a particular market; v) scope of a bank's international network; vi) a bank's creditworthiness; vii) availability of skilled personnel; viii) product differentiability; and ix) possession of customers with high international involvement. Some key bank-specific resources are reviewed as below.

First, knowledge is one of the key bank-specific resources. As mentioned above, most of the resources are in the form of intangible assets. Banking is a knowledge-based service. Gupta and Govindarajan (2000:473) argue that "knowledge has the greatest ability to serve as a source of sustainable differentiation and hence competitive advantage". Similarly, Cho (1985) explains that banks' knowledge, which comes from experience in operation, products, markets and customers, is crucial.

Second, in relation to the knowledge resource is the human resource. Knowledge is embedded in the bank system, network, and finally in the employees. Therefore people are an important source of a bank's competitive advantages. Nelson and Winter (1982) argue that people embody the routines and culture that lie at the heart of a firm's effectiveness. According to Buckley *et al.* (1992:40), like other services, banking products need to rely on "personal contact between the producer and consumer". Casson (1990) argues that personal contact is one of the main advantages in multinational banking. Bartlett and Ghoshal (1988) give an example and find that expatriate managers are important for the bank to be able to follow their existing clients in a new market. In fact, skilled and quality personnel are critical to banking in the host market no matter whether people are transferred internally from the parent bank or are identified locally.

Third, network resource is crucial. Network literature suggests that inter-organisational relationships and networks are important resources (Kennel and Enderwick, 2004). This argument is applicable at the intra-firm level of a large multinational bank with an extensive international network. Cho (1985) explains that a bank network includes the number of foreign offices of a bank in a particular country as well as the number of countries in which a bank has offices. The larger and more widespread the network, the

greater the benefit the banks will derive from it.

Fourth, bank-client relationship is an important resource. Brimmer and Dahl (1975) argue that banks invest abroad to internalise existing bank-client relationships. Building up a bank-client relationship is associated with considerable costs including the cost of identifying the client as well as the cost of establishing and maintaining the bank-client relationship. Relying on the existing bank-client relationship to develop the business in a new market saves on the cost of marketing.

Finally, product differentiation is argued to be an ownership advantage. Yannopoulos (1983, cited in Williams, 1997:81) explains that product differentiation comes from two sources: i) the importance of certain key currencies in internal trade and finance; and ii) the importance of non-priced competition in the market for banking services. In addition, product differentiation can be seen as generating “short-term advantages via apparent differentiation” and “long-term advantages via perceived differentiation”. The latter is argued to be associated with the bank’s size, its credit rating and the perceived profitability – those factors are not readily tradable in the market place, nor are they easily emulated as intermediated products.

Implications for the Formation of Strategic Entry Decisions

The resource-based view of ownership-specific advantages has implied how entry strategy can be formed. Specifically, strategic decisions regarding the entry motive, entry mode, and timing of entry are suggested.

The first implication relates to the entry motive decision. Dunning (2001) argues that firms are prompted to go overseas when their ownership-specific advantages are (or could become) threatened if they do not follow their competitors’ lead or because their advantage would be less without their presence. The resource position established in a new market creates barriers and works in an analogous way to market entry barriers blocking a competitor from acquiring a resource.

The emphasis on the O_t advantage suggests why seeking knowledge or network, (intangible assets) becomes a direct motive of foreign entry. In this context, organisation learning becomes crucial as mentioned in the discussion on the concept of strategy in Section 4.2. Relative to the O_a advantage, the entry decision tends to pay more attention than before to the argument of O_t advantage through harnessing, leveraging, processing and development of knowledge-based assets as a core competence.

The second implication relates to the entry mode choice. Hill *et al.* (1990) argue that entry mode indicates a certain type and amount of resource commitment. Hill *et al.* (1990:118) describe the resources committed to the host market as the “dedicated assets that cannot be redeployed to alternative uses without cost”. According to Luo (2000:365), “the greater the amount of distinctive resources or the more important they are to a firm’s global competitive advantage, the greater the necessity to use a high control mode”.

The third implication relates to the O_a advantage on the timing decision of the entry strategy. Empirical studies have shown that the attributes of the O_a advantage have an impact on the timing of entry. Some researchers have argued that firms might be keen to have early presence in the new market. In doing so, firms close off the new market to competition and “enjoy the protection of a resource position barrier” (Wernerfelt, 1984:173). Others have argued that firms draw upon experience gained from other entrants and apply the knowledge to later entries (Chang and Rosenzweig, 2001). Rivoli and Salorio (1996) find in uncertain environments that firm-specific advantages may be negatively rather than positively associated with FDI.

4.4.3 Implications from the Location-specific Advantages

Locational Sub-Paradigm

Dunning (2001:176) explains the location-specific advantage as “the extent to which firms choose to locate (these) value-adding activities outside their national boundaries”. To explain the location-specific advantage, Dunning (1988) distinguishes between

different market imperfections that may influence the locational decisions of MNEs. He argues that market structure distortions such as government intervention may either encourage or discourage the inward FDI.

Literature has cited a number of variables as being influential to market selection decisions in multinational banking. Cho (1985:48) explains Aliber's (1976) view and argues that, "international banking will be most substantial in those countries which have comparative advantages in producing bank products". Furthermore, Cho (1985:57) explains that a bank acquires benefits stemming from the differences in location-specific endowments between countries. These benefits can generally be found in a number of areas such as: different national regulatory frameworks; effective interest rate differentials; different economic situations; nationality of banks; and general socioeconomic differences.

The location component of the eclectic paradigm is complex and needs to be addressed along several dimensions from different strands of theories such as: location theories, institutional theories, knowledge enhancing theories, and risk diversification theories. Grosse (2004) argues that, "the institutional theory is particularly useful in trying to explain the MNE activities that occur in response to government policies". Based on this argument, the institutional theory is discussed below.

Institutional Theory and the Location-specific Advantages

Different from the resource-based view of the firm, another view of the firm focuses on the institutional aspect of its activities. Scott (1995:51) conceptualises institutional forces as coming from three "vital ingredients of institutions" i.e., the regulative system, the normative systems, and the cultural-cognitive system. The three forces are contributing in interdependently and mutually reinforcing ways. Institutional theory in the international business context has been documented using two lines of argument.

One line of argument focuses on the positive side from the MNE perspective that institutions provide location-specific resources. Bevan *et al.* (2004:43) note that, "institutions are widely regarded as a crucial locational advantage of host countries

aiming to attract foreign investors”.

A similar argument is found in the context of MNB. Cho (1985:57) explains that “different national regulatory framework” and “effective interest rate differentials” are important location-specific advantages of MNBs. Both factors are highly rated by the regulations in the host banking market. Williams (1997:90) addresses the argument of Davis and Lewis (1982) that banks’ entry into transition economies usually encounters high government involvement so that the host market uses foreign banks’ entry as “a policy to weaken the effect of the local monopolies that had been established under the previous regulatory structure”.

Another line of argument focuses on the negative side from the MNB perspective that institutions provide location-specific dimensions to depress bank-specific advantages. This line of institutional argument focuses on firms’ relation with external stakeholders, such as governments and pressure groups (Grosse, 2004:91).

Robert and Greenwood (2001) argue that, in a broad institutional context, firms do not make purely rational choices. Rather, institutional forces guide “programmed actions” that lead to homogeneity in action by the various firms in the industry (Berger and Luckman, 1967:75). DiMaggio and Powell (1983) argue that through legitimacy, (i.e., firms adapt to the institutional conditions through mimetic behaviour), firms adopt practices and structures that many other firms employ. Peng and Heath (1996), Kostova (1999), Kostova and Zaheer (1999) argue that, under what Bruton *et al.* (2004:415) call the “coercive isomorphism pressures”, the structure and strategies of multinational enterprises are shaped.

Implications for the Formation of Strategic Entry Decisions

Some scholars argue that institutional theory should be “preeminent in helping explain impacts on enterprise strategies” (Hoskisson *et al.*, 2000:252). Institutional theory provides the basis from which to consider the location-specific advantages in the entry decisions of location choice, entry mode selection, and management control.

The first implication concerns where to locate the FDI. Investors decide where to invest by taking into consideration institutional variables such as government policy (e.g., Casseres, 1991), intellectual property rights protection (e.g., Oxley, 1999) or political risks (e.g., Henisz, 2000). Henisz (2000) argues that in emerging markets the consistency and completeness of the institutional infrastructure impacts on the strategy of the foreign investors.

The second implication regards the entry mode decision. Anderson and Gatignon (1986) note that because some host governments may not allow certain entry modes to be selected in the first place, firms' entry mode decisions cannot be made purely based on transaction cost but must take the institutional conditions into consideration. The study by Davis *et al.* (2000) and Lu (2002) suggest there is mimetic behaviour in entry mode decisions. Firms select the entry mode that other firms adopt because of the benefit from high legitimacy, i.e., more proper, desirable, or appropriate action is taken.

The third implication mainly concerns the management control decision. Scott and Meyer (1983) argue that firms need to develop more complex internal administrative structures when they confront more complex, fragmented environments, such as multiple authorities. Management control is particularly important when an institutional environment is full of uncertainties.

4.4.4 Implications from the Internalisation-specific Advantages

Internalisation Sub-Paradigm

Dunning (2001:175) describes the concept of internalisation – which is concerned with the question of “why firms opted to generate and/or exploit their O (ownership) advantages internally, rather than to acquire and/or sell these, or their rights, through the open market.” Such advantage is referred to as internalisation-specific advantages.

Rugman (1980:28) uses the process of sustaining competitive advantage to explain the concept. According to him, firm-specific advantages possessed by the MNE are best exploited via foreign production, namely, “by the process of internalization”. Hymer

(1960) has argued that a multinational firm relies on firm-specific advantages derived from its position in its home market to compete in foreign markets, but competitive advantage will not be realised without an internalisation process.

In the context of MNB, internalisation advantages are categorised into five groups according to Williams (1997:82) commenting the study of Cho (1985); these five categories of internalisation advantages are: i) availability and cost of fund transfers within the multinational banks; ii) efficient customer contacts; iii) transfer pricing manipulation; iv) improved networks for information gathering; and v) potentially reduced earning variability. Williams (1997:81) argues that “internalization in banking is largely sourced from the role of information”.

In the internalisation process, ownership-specific advantages are sustained in the host market by the firms internalising them through the form of the multinational organisation. MNE act as an agency or an “internalizer” (Rugman, 1980:26). Furthermore, Rugman (1980:24) argues that the advantages which are exploited abroad via internalisation can be one or more of several types such as “scale economies, managerial expertise, a technological or knowledge advantage, monopoly, product differentiation and financial strengths”.

Internalisation Theory and Internalisation-specific Advantages

Scholars (e.g., Dunning, 1977; Rugman, 1979, 1980; Buckley and Casson, 1998) have developed internalisation theory into the theory of the MNE. Internalisation theory is mainly concerned with issues of why the MNE exists.

Drawn from the transaction cost economics of Coase (1937) and Williamson (1975), internalisation theory argues that when firms find that transaction costs in external markets exceed the governance costs of a hierarchical structure, they expand to replace the external market and bring the transactions within the firm.

The above argument suggests that the internal markets are more efficient than external ones which motivate firms to “produce” rather than to “buy”. As a supplementary

argument, Johanson and Mattson (1987:42) emphasise that in reality the internal market can be inefficient because “opportunism also exists within firms”. Therefore, it should be noted that, even under the internalisation process, organisations are not necessarily able to economise because of bounded rationality.

The market imperfection assumption is held and extended to transactions across national boundaries through FDI. Williams (1997:76) argues that, “internationalisation occurs whenever internalisation occurs across a national boundary”. Studies by Rugman (1979), Casson (1987), and Buckley (1993) suggest that, “international market transactions for intermediate goods are brought into firms, or internalized, via FDI in order to reduce the cost of organizing or controlling the transactions” (Tallman, 1992:457).

The application of internalisation theory to the banking FDI is developed by Gray and Gray (1981). They (1981:42) argue that additional economies of internal operation arising from multinationality can be achieved in four areas: i) efficiency in marketing and account management; ii) availability and cost of funds transferred within the MNB; iii) larger and improved networks of market information and commercial intelligence; and iv) the potential for reduced earning variability.

To realise the above-mentioned additional economies, Gray and Gray (1981:41) point out that the MNB can rely on managerial advantages that have been accumulated in a national market before the bank becomes multinational. Such an internalisation-based view is argued to be static because it assumes that the management will automatically have insight for optimal strategic choice in the host market.

The above dimensions suggest what the MNB can expect to achieve, but not how to achieve additional economies through internalisation. The role of management in achieving these goals has found less support. Buckley (1993:199) suggests that the role of management in the internalisation process in the MNE context can have four aspects: i) to decide the scale and scope of the firm; ii) to choose the direction of growth and identify the market and seek opportunities to make a profit; iii) to contrive market

imperfection in order to maximise growth opportunities; and iv) either to raise the transaction cost of competitors or to achieve competitive advantage in the final goods by tying in customers. These dimensions have generated fewer studies in the context of the MNB in transition economies.

Implications for the Formation of Strategic Entry Decisions

The internalisation view has implications for the entry motive decision, for the entry mode decision, and for the specific operational decision in terms of scope and scale of product selection, the direction of growth and the cost of seeking and protecting competitive advantage.

The first implication is in regard to the entry motive decision. The specific entry motive focuses on why firms wish to set up foreign production in the first place. Dunning (1988:3) explains the existence of the MNE as the result of market failure identified in three areas: i) those which arise from risk and uncertainties; ii) those that arise from the ability of firms to exploit the economies of large-scale production, but only in an imperfect market situation; and iii) those that occur “where the transaction of a particular good or service yields costs and benefits external to that transaction, but that are not reflected in the terms agreed to by the transacting parties”.

The second implication of internalisation-specific advantages is about the entry mode decision. The transaction cost theories suggest firms should choose the most cost beneficial and cost effective mode of entry. Anderson and Gatignon (1986:1) hypothesise that the trade-off between control and cost of resource commitment, suggests that firms choose the most efficient entry mode. However, Dunning (2000b) suggests that it is incomplete to only base the entry mode decision on the transaction-cost view. Firms may wish to engage in value added activities outside their national boundaries for other reasons.

The third implication is on the different aspects of management decisions. Buckley (1993:197) argues that there is a central role for management decision-making within the orthodox theory of the MNE. These decisions include decisions about the scale and

scope of the firm, the choice of direction for growth of the firm to profit by appropriating rent, and the maximisation of opportunities for growth. Firms may seek to raise the transaction costs of competitors through two approaches. One is to achieve exclusive access to key inputs; the other is to achieve competitive advantage for final goods by tying in customers.

4.5 Chapter Conclusions

This chapter has primarily been concerned with the literature relevant to the strategic entry decisions of the MNB. The review has found that the traditional definition of entry strategy has not put enough emphasis on the multifaceted dimensions of entry strategy. Instead, most studies have regarded the entry mode decision as the concept of entry strategy. The reason is presumably due to concerns about how to enter the foreign market. Root's (1994) concept of market/product entry strategy adopts the same idea that entry strategy is in multifaceted dimensions. A critique of Root's concept is that strategy is perceived as a plan or design, which is not totally in line with the concept of entry strategy adopted for this research.

The strategy literature and the theories of the MNE have helped to develop the concept of entry strategy. First, this study assumes foreign operations are inherently risky. Entry strategy can only be related to a particular stage of the internationalisation processes. Hence, the formulation and formation in the development of strategy are both important. Under the environment of uncertainties, the implementation side of strategy formation is assumed to be more important. Four strategic entry decisions constitute the content of entry strategy in this research; these are: strategic motive decisions, entry mode decisions, management control decisions and marketing orientation decisions.

In order to identify factors that influence the formation of each strategic entry decision and the relationships between the four dimensions of the entry strategy, the eclectic paradigm (Dunning, 1977, 1993) is reviewed from three aspects in each of its sub-paradigms. The three issues are: i) the key concept of the sub-paradigm; ii) the theoretical base of the sub-paradigm; and iii) the implication for the formation of strategic entry decisions.

Indeed, as the term “eclectic” suggests, the OLI framework, constituted by ownership-specific, location-specific and internalisation-specific advantages, is an encompassing idea established from a broad range of theorists. The three dominant theoretical bases are: the resource-based view, institutional theory and transaction-cost view of internalisation theory. The three theoretical strands suggest that the formation of entry strategy occurs under the influence of both the firm-based factors and the location-based factors.

The three sub-paradigms under the OLI paradigm do not exist exclusively but interplay with each other. Therefore, implications for the formation of entry strategy as derived from arguments under each sub-paradigm are found to overlap. In the ownership sub-paradigm, the resource-based view provides factors that impact on the entry motive decision, the entry mode decision, and the decision of timing of entry. In the location sub-paradigm, the institutional theory provides factors that impact on the decision of the entry location, entry mode choices and management control decisions. In the internalisation sub-paradigm, the transaction-cost view of internalisation theory provides factors that impact on the decisions in the entry motive, entry mode and implementation aspects of strategy.

Dunning (1988:3) argues that, “it is not only useful but logically correct to distinguish between the capability of the MNEs to internalize markets, and their willingness to do so.” According to this argument, the literature review found that the ownership-specific advantage is associated more with the issue of why these advantages are exploited by one group of MNE rather than another. Location-specific advantages and internalisation-specific advantages are associated with how hierarchies rather than external markets are the vehicles by which transactional ownership advantage (O_i) is transferred across national boundaries.

This review, in general, has confirmed the relevance of the eclectic paradigm in the context of this thesis. Casson (1990, cited in Jones, 1990:15) argues that, “it is natural to approach multinational banking by enquiring how far the behaviour of MNBs parallel that of manufacturing firms.” The review shows the way that the same principles work

out in practice is rather different between the FDI of the MNE and the MNB. Banks have characteristics of value-added activities which are specific to their industry.

The three enabling factors for the competitive advantages of the MNB are interdependent. With this in mind, the empirical literature has to be reviewed in order to develop a conceptual framework to incorporate what is identified through this literature. This is the focus of the next chapter.

Chapter 5 Developing a Conceptual Framework

5.1 Introduction

This chapter develops the conceptual framework presented in this thesis, within which to both explain and explore the real case examples of the multinational banks which have entered into the China banking market. The conceptual framework is developed based on a further review of the eclectic framework as it is applied empirically in the context of multinational banking.

In Section 5.1, empirical studies regarding the entry issues of the MNB are reviewed. The aim of an empirical literature review is to understand what has been achieved in explaining the strategic entry decisions of the MNB. As a result, the review finds that the eclectic framework has not been fully applied in the context of the MNB.

In Section 5.2, the reasons for fewer applications of the eclectic framework in the context of the MNB are explained. The review highlights literature gaps which are embedded in both theoretical and empirical dimensions. With regard to the literature gaps, research propositions are developed and specific research questions are articulated for this thesis.

In Section 5.3, the conceptual framework is described in detail. Empirical studies suggest that using existing conceptual models cannot fill the literature gaps identified in this research. Therefore, an integrated conceptual framework is developed incorporating four elements in the construct; these are: i) strategic entry decisions; ii) enabling factors for competitive advantage from an eclectic viewpoint; iii) a feedback loop to know when and how competitive advantages are sustained; and iv) the parent-local decision-making context. Finally, Section 5.4 suggests the potential contributions to knowledge through this research.

5.2 Empirical Studies on Entry Behaviour of Multinational Banks

5.2.1 Development of Empirical Studies

This section focuses on the empirical studies regarding the entry issues of the MNB. As shown in Appendix A, seventy empirical studies published from 1974 to 2006 are identified through a systematic literature search of the academic journal databases. In this pool of study, the development of the empirical studies of the MNB is reviewed in four dimensions, these are: i) research foci; ii) application of theory; iii) research methods; and iv) research contexts. The findings in each dimension are discussed below.

i) Research Foci

Empirical studies identified for this thesis have shown a number of research foci. As shown in Table 5.1, research foci are mainly concerned with issues in three areas, these are: i) the entry decisions with regard to the motive, mode, location, and timing decisions made by the MNB; ii) the performance of the MNE such as growth and survival in the host market; and iii) the impact of the MNB on the banking market in the host country market.

The last two areas mentioned above have attracted the most research attention. In comparison, the first area has been studied with a different focus on each part of the strategic entry decision. Entry strategy, as defined by this study to have different dimensions of strategic entry decisions, has been hardly studied.

In comparison, empirical studies have given less attention to activities of the MNB in the host market. The management issues of the MNB in the host market have been insufficiently investigated.

Table 5.1 Research Foci in Empirical Studies of the MNB

	Research Foci	Represented by the Studies
1	management	3%
2	entry strategy & growth	3%
3	banking activities	4%
4*	entry timing	4%
5	entry & survival	6%
6*	entry mode	7%
7	performance	9%
8*	location	9%
9*	entry motive	10%
10	impact on domestic banking	19%
11	growth pattern	27%

Note: Items marked with * suggest that the studies are concerned with strategic entry decisions of the MNB.

ii) Application of Theory

As shown in Table 5.2, studies that have addressed theoretical implications tend to rely on several bodies of literature including economic theories, the theory of the MNB and the MNE, and the eclectic view as well as related arguments based on eclectic paradigm. A quite high proportion of empirical studies has given less consideration to the theoretical implications.

Table 5.2 Theoretical Support in Empirical Studies of the MNB

	Theoretical-based & Non-theoretical-based Studies	Represented by the Studies
1	practitioner's view	3%
2	report	4%
3*	theory of the MNE	4%
4	empirical literature	6%
5**	eclectic paradigm	7%
6*	theory of the MNB	9%
7**	certain dimension (s) of eclectic paradigm	10%
8	without sufficient literature argument	26%
9*	economics theories	31%

Note: 1) Items marked with * suggest the studies have applied theory; 2) Items marked with ** suggest the studies have applied the eclectic paradigm in particular.

On the one hand, many empirical studies have been based on the theoretical arguments in the economic literature. The fact that these studies have focused on issues of the growth pattern of the MNB and the impact of the MNB on host banking, as mentioned earlier, may explain why economic theories have been the dominant theoretical domain for empirical studies of the MNB.

On the other hand, a quite high percentage of studies have been conducted without the intention of contributing to the literature. These studies tended to focus on the contextual information and used a descriptive approach to analyse the phenomena of multinational banking. In addition, some studies simply applied empirical literature for the purpose of developing research methodology.

With regard to the application of the eclectic view, some studies have been conducted based on the three sub-paradigms of the eclectic view, whereas others have only focused on certain factors derived from one or two dimensions of the eclectic framework.

iii) Research Methods

The collected empirical studies suggest four research methods have been often adopted. As shown in Table 5.3, these approaches are: econometric modelling, descriptive analysis, case study and survey. The majority of the studies have been based on quantitative modelling to study the growth pattern of the MNBs and their impact on the host banking market.

Table 5. 3 Research Approaches in Empirical Studies of the MNB

	Research Method to Study the MNB	Represented by the Studies
1	survey	1%
2	case study	4%
3	descriptive analysis	26%
4	modelling	69%

A quite high percentage of studies have used contextual information and this information has been presented through a simple descriptive analysis. It is difficult to draw theoretical implications from these studies. In addition, there is less application of the case study method and also only a few studies have adopted the survey approach.

iv) Research Contexts

The research contexts of the empirical studies are reviewed. As shown in Table 5.4, research contexts can be categorised into five groups, these are: i) the context of MNB from different home markets entered into a single country market; specifically, the target markets can be divided into three areas, i.e., the U.S. market, the other single market and the market in China; ii) the context of MNB from different home markets entered into some other different markets; specifically, the target markets can be divided further to include the less developed countries (LDC) and the other countries; iii) the context of MNB from a single country market entered into different host markets; iv) the context of MNB from a single country market entered into another different single country market; and v) the context of global banking market.

Table 5.4 Research Contexts in Empirical Studies of the MNB

Characteristics of the Research Contexts				Represented by the Studies
	Home Markets	Host Market		
1	multiple markets →	a single country market	the U.S. banking market	27%
			other single country markets	26%
			the China banking market	11%
2	multiple markets →	multiple markets	less developed countries	7%
			other countries	6%
3	a single country market →	multiple markets		14%
4	a single market →	another single market		4%
5	global banking market in general			4%
<i>Note:</i> Arrows denote the direction of investment flow.				

The studies show that earlier research has focused on the MNB related to the U.S. banking market. It is only since the late 1980s that research has diversified to other contexts including the MNBs in markets in Europe and in Asia. More studies are based on MNBs from the developed countries (DCs) than on the LDCs. Empirical studies on the MNBs in China have attracted more attention only in recent years.

5.2.2 Application of the Eclectic Framework

As mentioned above regarding research foci, four dimensions of strategic decisions are identified in the empirical studies, these are: the entry motive decision, the entry mode decision, the location selection decision and the entry timing decision. Key studies representing each dimension are reviewed as follows. The results from studies on these foci based on the eclectic view are discussed further below.

i) Empirical Contribution regarding the Entry Motive Decision

Empirical studies show that entry motive has mostly been viewed from the economics point of view. One main argument is that international trade and the development of the FDI of the non-financial sector drive banks to invest abroad (Terrell, 1979; Casson, 1990). Buch (2000) also supports the hypothesis of the customer-driven motive based on the evidence of German banks. Findings from these studies support the argument that location-specific advantages impact on the formation of the entry motive decision.

However, based on the historical development of the multinational banking, Kindleberger (1983:592) finds that due to different laws, traditions, and processes of internationalisation “whether banks then follow or lead international business admits of no easy answer”. In line with this argument, Engwall and Wallenstal (1988) also find that banks tend to concentrate their internationalisation efforts on important financial centres, not necessarily following their customers abroad. Seth *et al.* (1998) comment that in view of the mixed evidence, the question of whether banks follow or lead the foreign investment remains an open one. Findings from these studies suggest it is perhaps too simple to regard the “following the client” decision as the only main entry motive.

Based on case studies of the MNB, Tschoegl (2002b:811) argues that “the motives for the initial entry often differ from the ones that sustain it later”. Recent studies, such as the study by Akbar and McBride (2004) suggest that in transition economies, the market seeking motive of the MNB is a dominant motive. Motives of the MNB may change and need to be considered together with the strategic long-term benefit to local economic development as determined by the policy makers in those economies. These studies support the argument that the formation of entry motive is impacted by the local-specific advantage; in particular, the institutional impact is potentially significant.

In summary, empirical studies support the view that formation of the entry motive decision is impacted by the location-specific advantages. These studies have shown little study of the entry motive impacted by the ownership-specific advantages. It is perhaps a narrow view to over-emphasise the “following the client” decision of the MNB. In this thesis, the entry motive decision as argued in the context of MNE is examined in the context of the MNB. The study sets a focus beyond the traditional argument on the “following the client” decision, instead the study leaves the decision choices open and ready to be both explored and explained.

ii) Empirical Contribution regarding the Entry Mode Decision

There is less empirical research modelling for the choice of entry mode of multinational banking (Bain *et al.*, 1997). Earlier empirical studies have been based on the MNBs in the U.S. market. Goldberg and Saunders (1981a) find that the entry form is highly subject to regulatory influence. The study of Ball and Tschoegl (1982:421) suggests that the ownership-specific advantage determines the entry mode decisions. Particularly for the banks already having a presence in the host market, “commitment appears to be a function of experience, both with foreign operation, in general, and in the country, in particular”. Findings from these studies confirm that entry mode decisions are impacted by both the internal factors, i.e., the ownership-specific advantages and the external factors, especially the regulations of the host market.

In the context of Portugal, the empirical study by Barros (1995) finds that the removal of entry constraints has given rise to strong growth in branches by different groups of banks, including state-owned, private and foreign banks. The competition in branching strategies comprises two fundamental concerns with respect to where to open a branch and how many branches to open. The study also finds that banks made decisions by following other banks. The findings support the argument that institutional impact entry mode decisions cause some homogeneous behaviour of the MNBs in the host market.

Based on the context of the banking market in China, Fu (1998:223) analyses different entry modes that have been chosen by the European banks. Using the OLI framework, the study finds that the branch is favoured over the wholly-owned subsidiary by the MNB for three reasons: “the home country’s legal protection is highly valued by target customers; the parent banks’ financial backing increases its ability to make large loans; and it requires less capital infusion in China.” These findings support the argument that internalisation-specific advantages are concerned with the entry mode choice of the MNB.

Parkhe and Miller (1998) based their study on the entry mode choice between branch and subsidiary of the MNB to other host markets. Not directly applying the OLI paradigm, however, their study suggests that the ownership-specific factors impact on the decision of the MNB when they use the entry mode as a strategic tool for competitive advantages. These factors include a bank’s size, level of globalisation, and product diversity.

In summary, empirical studies support the view that entry mode decisions are impacted by the ownership-specific advantages and the location-specific advantages, in particular the institutional factors. The cost concern in the entry mode decision, suggests the impact of internalisation-specific advantages when the ownership-specific advantages and location-specific advantages are internalised through the establishment of the MNB.

iii) Empirical Contribution regarding the Entry Location Decision

For the location decision, empirical studies by Nigh *et al.* (1986) divide the international banking markets into five subsets, namely, the developed, less developed, European, Latin American and Asian countries. Empirical tests suggest that the degree of openness of these markets has a direct influence on the establishment of new foreign bank branches.

Brealey and Kaplanis (1996) and Focarelli and Pozzolo (2003) conducted empirical studies and provide general explanations that the location choice is associated with the development of trade and FDI, financial innovation and development of communications.

Miller and Parkhe (2002) argue that location selection relates to the liability of foreignness. The study suggests that, “X-efficiency of a foreign-owned bank is strongly influenced by the competitiveness of its home country and the host country in which it operates.” A similar study was conducted by Nachum (2003) by using the OLI related factors. The study takes the country of origin into consideration to indicate the impact of economic integration between the home and the host markets on the location choice.

In summary, the formation of location choice decisions can be explained by the location-specific advantages and the internalisation-specific advantages. It can be argued that the location-specific advantage should be viewed not only from the conditions of the host market, but also from the conditions of the home market. Location-specific conditions at both markets determine that economic benefits can be internalised through the establishment of the MNB.

iv) Empirical Contribution regarding the Entry Timing Decision

Entry timing decisions can be regarded as a separate strategic entry decision, or as an element that can be considered in each of the above mentioned decisions. The study by Ursacki and Vertinsky (1992) focuses on the timing of entry based on the foreign banks in Japan and Korea. The former market is a major international financial centre, while

the latter is a small, domestic market. Based on the OLI related factors and theories of the MNB, the study supports the hypothesis that entry timing is positively related to the ownership-specific advantage.

Under the OLI paradigm, Blandon (2001) suggests that in the context of the Spanish banking market, the existing advantages may make foreign investment less reversible and more delayable because of uncertainties. Factors such as country of origin and culture distance impact on the timing of entry. Fuentelsaz *et al.* (2002) provide a more dynamic view to support the role of learning and changing ability of the MNB in the entry timing decision. In the context of the banking market in China, the study by Leung, Rigby and Young (2003) applies the OLI framework and finds entry timing is influenced by firm-based ownership advantages and location-specific factors.

In summary, the formation of entry timing decision is impacted potentially by each of the three enabling factors in the OLI paradigm. The ownership-specific factors and the location-specific factors are perhaps more directly related to the decision in this aspect.

5.3 Literature Gaps, Research Propositions and Research Questions

5.3.1 Literature Gaps

A review of empirical literature suggests that the application of the OLI paradigm is not sufficient in the context of the MNB. The study of the entry strategy as defined in this thesis has been supported with less empirical evidence. The study based on the context in China using the OLI paradigm is far less sufficient. It can be argued that this status of empirical study has been caused by a lack of understanding of the OLI paradigm. Paradoxically, we can also argue that the embedded problems of the OLI paradigm have impeded the development of meaningful empirical research.

In this section, the literature gaps are identified based on the discussion of the weakness of the OLI paradigm as it is applied to the research context in this thesis. Dunning (2001:177) states that, “the purpose of the eclectic paradigm is not to offer a full explanation on all kinds international production but rather to point to a methodology

and to a generic set of variables which contain the ingredients necessary for any satisfactory explanation of particular types of foreign value-added activity”.

i) Multiple Perspectives in the OLI framework

The OLI framework suggests that strategic entry decisions need to be viewed from multiple perspectives because none of the decisions is found to be determined by factors in a single dimension. Also, in fact, the sub-paradigms do not exist in isolation, but impact upon each other. For example, although resource is argued as an ownership-specific advantage, it also acts as an enabling factor for competitive advantage in location-specific factors and internalisation-specific factors. How to identify and measure the resource of banks is largely unclear.

Empirical studies have confirmed the three enabling factors are often considered in parallel. However, they cannot be automatically integrated because each ingredient theory is embedded with its own assumption. Specifically, the three main theoretical bases of this study, i.e., the resource-based view, institutional theory and internalisation theory require a core line of alignment for each of their own fundamental assumptions.

The need to integrate the three paradigms is asserted by Dunning (2000b:183). According to Dunning, “the constituent theories in the OLI paradigm are interdependent. The identification of such intellectual interdependencies or externalities to each of the theories not only adds value to its original conception, but also points the way to improve the variety of the individual theories the eclectic paradigm embraces.”

Peng (2000:37) proposes a more “firm-based perspective” to integrate factors from the macro and micro dimensions. The firm-centered approach “connects state-level policies” with “individual-level managerial decisions”. Through such an approach, the macro-micro link that is often missing in social science can be created.

This study tries to create the macro-micro link. Case studies provide the micro-level data, while the study of the contextual conditions provides macro-level data to

supplement the case studies. The OLI framework incorporates variables from both macro and micro dimensions. Such an approach, although is not totally new, has been less applied to the studies of the MNB.

ii) Static View of Strategy in the OLI Framework

Dunning (2001:178) argues that strategy in the OLI paradigm means decisions based on the configuration of OLI variables. Accordingly, “the extent and pattern of MNE activities represents a point on a set of trajectories towards their internalisation path.” Wilkins (2003) comments that Dunning has tried to reconcile his approach with research in strategic management.

One difficulty of applying the strategic idea in the OLI paradigm is to identify the change of strategy at one point of time from another point in time. The literature suggests certain views to fill the gap of how to identify strategy based on the OLI configuration. For example, Vernon’s (1966; 1974, Melin, 1992) product life cycle theory attempts to bridge a country-based perspective of international trade theory with an individual firm’s perspective. A further question is that it is not clear how product life cycle can be defined.

Various factors influence the strategy while each factor may only provide a partial explanation for the formation of strategic entry decisions. According to Dunning (1988:14), “the crucial question is whether a general theory of business strategy can be devised that can be used alongside the eclectic paradigm to explain the actions of MNEs in a dynamic situation.”

Dunning (1988) suggests that the OLI configuration can be viewed from the investment development path (IDP) of the target country. The IDP identifies four stages of development that a country might pass through. These stages are: i) the stage dominated by inward FDI; ii) the stage with both inward and outward FDI; iii) the stage dominated by outward FDI and iv) the stage with a fluctuating balance of outward and inward FDI. The problem is that it is not clear how to forecast the behaviours of

governments and identify the particular stage of IDP.

Through establishing the relationship between determining factors and the entry decisions, the OLI framework is applied for identifying the mechanism that governs the configuration of entry decisions. The potential differences in strategic configuration of the MNBs are explored. This approach is different from existing cases studies in that it does not over-emphasises the evolution of strategy *per se* but focuses more on exploring why and how the MNBs may have different entry decisions.

iii) Firm Behaviour in the OLI Framework

In the formation of strategic decision, firm-specific characteristics are crucial to any particular OLI configuration. The ownership sub-paradigm supports this argument. But whether differences in the behaviours of firms can be examined through the OLI framework remains in question.

The lack of study on firm-based behaviour is evidently viewed from the basis of the internalisation theory. For example, the entry mode decision has been mostly based on internalisation theory. According to Tallman (1992:467), the entry mode is determined based on “structural efficiency after equilibrium conditions are established”. Johanson and Mattson (1987:47) argue that such an approach is helpful to “explain the existence of different governance structures or institutional forms in different situations”. However, Borys and Jemison (1989) argue that the approach offers less explanation on the “process” by which the equilibrium is attained. It only allows a *post hoc* analysis with little to say about how to identify important factors *ex ante*.

In fact, Dunning has sought to integrate the mainstream economic and behavioural theories to explain aspects of FDI and/or foreign-owned problems. Empirically, as suggested in Section 5.2.1, in influencing the extent and pattern of international production, the behavioural-related variables have seldom been studied. To fill this gap in the literature, Dunning (2001:186) suggests that conducting a detailed examination of the profile of individual firms, and reclassifying firms into strategic groups could help

to “show that type of strategic behaviour is not an idiosyncratic variable but can be related to certain characteristics of firms (or groups of firms)”.

Different from the previous studies, the OLI framework in this research tries to incorporate variables related to the profile of individual banks to their strategic entry decisions. The relationship between the type of the individual bank profiles and the type of entry decisions is therefore established. The application of OLI framework tries to fulfill the gap of the lack of method to study the behaviour-related variables of the multinationals.

iv) Service MNE in the OLI Framework

Dunning (2001:176) argues that the significance of each advantage and the configuration between them is “likely to be context specific, and in particular, is likely to vary across industries (or type of value-added activities), regions or countries (the geographical dimension) and among firms.” This statement suggests a general eclectic paradigm has to find a way of adapting to the contextual settings of this research.

According to Buckley (1991:19-20), “the danger with service multinationals is that a special case of the general theory of multinationals will be developed as a rival theory.” Although “the study of service multinationals can yield a great deal of insight into theories of international business”, research on the behaviour of internationalising service firms is still rare.

Since service is based on process using intangible resources it is difficult to explain behaviours of the firm straightforwardly. Godfrey and Hill (1995) argue that measures of resource are problematic because many are intangible. Priem and Butler (2001) also critique that the boundary of resources is not conclusive in the literature of the RBV. Dunning (1989) argues that the O_t -specific advantages imply that firms need the capability to gather, store, monitor, interpret and analyse information at the least possible cost. How the MNBs exploit and explore information/knowledge-based advantages through the internalisation process has been less understood.

Given that very limited application of the OLI framework to the service sector exists, the application of the OLI framework in this research aims to build up the existing literature by extending the framework to a specific service sector, i.e., the banking sector, and in a specific business context.

5.3.2 Research Propositions and Research Questions

This section develops the research questions by highlighting the core arguments identified from the literature with concerns of the research phenomena. In this research, the main issue in question is the formation of entry strategy. In the OLI paradigm, each dimension of the strategic entry decision of the MNB has found a supporting theoretical base to explain its formation. However, it seems to be a largely unknown issue regarding how to apply the OLI framework to the specific context of the MNB in the banking market in China.

Specifically, the industrial level observation of the MNBs in the China banking market as described in Chapters 2 and 3, has suggested two seemingly conflicting forces in shaping the strategic entry decisions, which aim for sustaining the competitive advantages in the host market.

On the one hand, the RBV, as one main theoretical base in the OLI paradigm adopted in this thesis, suggests that MNBs are different in their ownership-specific advantages. According to Dunning (1988:2), ownership advantages “vary according to the characteristics of firms, the products they produce, the markets in which they operate, and whether the competitive advantage is viewed from a static or dynamic perspective”.

Rugman (1979) has asserted that different firms may view identical investment opportunities offered by a particular market differently. Tallman (1991:71) has also argued that, “due to the complex interactions of skills, managerial discretion, and location factors, competitive advantages of firms are never identical.” The above argument suggests that the following is true for the MNBs in the banking market in China:

Proposition 1: The strategic entry decisions of the multinational banks in China are different. The differences are mainly attributed to the differences of the bank-specific resources and the existing strategies of the parent banks.

On the other hand, the institutional theory, as another main theoretical base in the OLI paradigm adopted in this thesis, suggests that MNBs tend to behave similarly to sustain their local-specific advantages. According to Meyer (2001), in emerging economies the traditional liability of foreignness is magnified for the multinationals, thus firms need to mitigate the risk. Peng and Heath (1996) find that in emerging markets, institutional transitions profoundly affect strategic choices and firm performance.

Multinationals in the host market are most likely to attend to the demand of the host country and their organisational practices tend to become similar. This argument is based on institutional theories, suggesting institutional force causes isomorphism which moderates firms that wish to create competitive advantage through differentiation (DiMaggio and Powell, 1983; Zaheer, 1995). The above discussion suggests that the following is true for the MNBs in the banking market in China:

Proposition 2: Under the coercively imposed regulatory conditions and the underdeveloped market conditions, strategic entry decisions of the multinational banks in China have tended to converge.

The consideration of both forces in driving the formation of entry strategy raises the question of “Why do firm differ?” Peng (2000:6) comments that, “answering this question in transition economies helps us probe the roots of the nature of firm”. The consideration of both forces in fact tries to integrate concerns of the ownership-specific advantage with the one on the location-specific advantage. The gap missing in the linkage of advantages from both sub-paradigms is the internalisation-specific advantage, which it has been argued, exists in theory but is hard to be demonstrated, or perhaps we have not yet found an appropriate method of demonstration.

It is important to note that the traditional argument regarding the internalisation-specific advantage focuses on the question of why firms establish the MNB to internalise the ownership-specific advantages as well as the location-specific advantages. In this study, emphasis is focused on why firms differ in their strategic approach of establishing the MNB in the internalisation process. The former focus provides rationale for the existence of the MNB which sets the conditions for the argument in the latter regarding the different approaches that firms may adopt.

By focusing not only on the reason why the MNBs are needed, but also on how they are established through different approaches, the argument in this thesis is trying to introduce the strategic consideration of both the establishment and development of the MNB. Based on this core question, three interrelated research questions are articulated as follows:

- 1) Are the entry strategies of the multinational banks different in China?*
- 2) If the entry strategies of the multinational banks are different in China, why?*
- 3) To what extent have regulations impacted on the entry strategies of the multinational banks in China?*

5.4 Conceptual Framework

5.4.1 Rationale

Developing a conceptual framework has the purpose of incorporating a number of theoretical elements. By capturing the main factors, attributes and the relationships between factors, the conceptual framework provides a construct of the eclectic paradigm to be applied to a specific context. Given that the focus of this research is the MNB entering into the market in China, the conceptual framework is developed only to explain the entry strategy for the same single host market – China.

The existing conceptual frameworks adopted in previous studies have provided references for the development of the conceptual framework for this study. Khoury and Pal (2000:549) argue that the “theoretical framework developed for understanding FDI

in the manufacturing sector is still largely relevant to FDI in the financial sector.” Three existing models are identified from the empirical literature review.

The three models represent three approaches in establishing a conceptual framework regarding the strategic entry decisions; these models are: i) Tallman’s (1992:462) “resource-based model” ii) Root’s (1994:4) model on “the elements of an international market entry strategy”; and iii) Fu’s (1998:215) model on “a schematic representation of entry choice factors”. The meaning of each of the above models to the establishment of a conceptual framework in this thesis is discussed below.

Tallman (1992) establishes a framework to understand the entry mode decision. A resource based view of entry strategy is reflected in Tallman’s model in which the firm-specific resource and the global strategy are regarded as the firm-based factors. The location factors are perceived as the external factors. The function of internal and external factors determine the appropriate host market strategy, of which the entry mode decision is a part. The feedback loop for the decision is highlighted. However, Tallman distinguishes general host market strategy from the entry mode decision, which does not conform to the entry strategy in this study. The location factors are not specified and do not highlight the regulatory dimension.

The conceptual framework by Root (1994) provides a model of entry strategy. In Root’s model, the main strategy entry decisions are constructed in different dimensions. The model also postulates the relationships among different decisions. Root focuses on the factors that influence the formation of the entry strategy with the feedback loop mentioned for justifying the entry strategy. However, the implementation of strategy is only mentioned but without detailed explanation. The entry strategy is perceived as planned and designed, which is not in line with the concept of the entry strategy in this study.

Fu (1998) establishes a conceptual framework based on the banking market in China. The framework is based on the OLI paradigm which is different from the previous two conceptual frameworks. Fu also specifies the attributes of each enabling factor in the

framework. However, the framework is used only for the entry mode decision.

None of the existing conceptual frameworks can fully satisfy the research purpose of this study. Weaknesses found in the above models frequently occur in other models. These weaknesses include: the lack of clarification on entry strategy; the simple focus only on one dimension of the entry strategy; the lack of emphasis on the external factors; the lack of attention to the feedback loop to justify entry strategy. A conceptual framework established for this thesis tries to avoid these weaknesses.

5.4.2 Construct of the Conceptual Framework

The component of the conceptual framework is considered in four aspects according to the existing model as discussed above. The four aspects refer to the strategic entry decisions; the enabling factors for competitive advantage, the parent-FBU context and the feedback loop for the formation of strategy.

The strategic entry decisions include: the entry motive decision, the entry mode decision, the management control decision, and the marketing orientation decision. The entry timing decision is not taken into consideration because this decision potentially exists in any of the above decisions, although it is also one of the key decisions and no less important than the others. The location choice decision is not addressed because the study focuses on the strategic entry decisions of the MNBs from different home markets to the same single host market.

The three groups of enabling factors to sustain competition advantages in a particular host market are: i) the ownership-specific factors (including the bank-specific resource and the global strategy); ii) the location-specific factors (including the market structure, but focusing on the regulatory structure); and iii) the internalisation-specific factors (indicating the process of internalising the ownership-specific advantages through the implementation of the formulated strategy with the location-specific advantages).

The parent-FBU relation is incorporated in the framework to highlight a key attribute in the concept of entry strategy. Strategy is stratified into three levels: the global strategy,

the strategic entry decisions formulated, and the implementation decisions formed in the internalisation process. The parent-FBU context suggests that the implementation decisions in the local market should be integrated with strategic entry decisions as formed in the local market, as well as the global strategy as formulated already from the implementation perspective in the local market.

The feedback loop should be designed to indicate how entry decisions are justified in the process for strategy formation. However, this research focuses on the strategic behaviour of the MNBs; the competitive advantages are not directly measured. Hence, the feedback loop is not incorporated in the framework. The limitation caused by not incorporating feedback loop is further discussed in Chapter 10, Section 10.4.1.

Furthermore, based on the introduction of the context in Chapter 2, the branch entry mode is focused on in order to investigate the implementation side of the entry strategy, i.e., the management control decisions and the marketing orientation decisions. In addition, the corporate lending business provides the specific context in which to investigate the implementation of the strategy.

5.4.3 Explanation of the Conceptual Framework

A conceptual framework as converged based on the existing models (e.g., Tallman, 1992; Root, 1994; Fu, 1998) is established. The framework incorporates three domains for the sources of competitive advantages of the MNB in the host market. The three domains are: the ownership-specific advantages (O), the location-specific advantages (L) and the internalisation-specific advantages (I).

In each domain the key elements are constructed. In the O-specific advantages domain, bank-specific resource (BSR) and global strategy are incorporated as the two main elements. In the L-specific advantage domain, market structure and regulatory structure are included. In the I-specific advantage domain, the four strategic entry decisions and the feedback loop are incorporated. The framework addresses the following objectives based on the literature review.

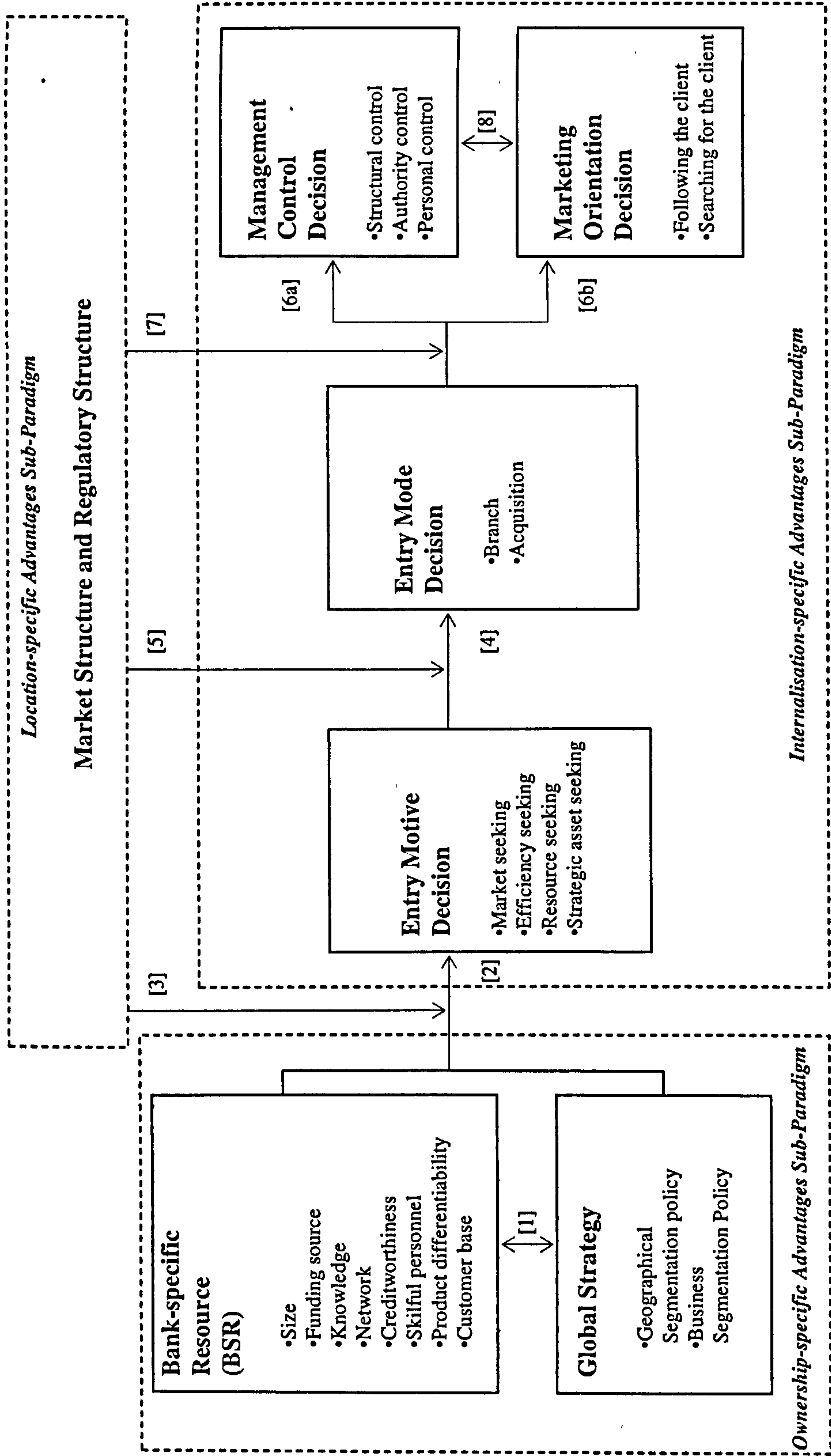
- To explain the meaning of strategic entry decisions, each dimension of strategic entry decision is given with the specific attributes according to strategic entry choices suggested by the literature.
- To explain how strategic entry decisions are related and formed as a pattern of decision, the relationships between strategic entry decisions are postulated based on the literature.
- To emphasise the implementation side/or internalisation process, the management control decisions and the marketing orientation decisions are treated differently from the strategic entry motive and strategic entry mode decisions, i.e., the latter is constructed based on a decision of a particular entry mode; in this thesis, the branch entry mode is referred.
- To examine the formation of strategic entry decisions, the ownership-specific factors and the location-specific factors are related to each strategic entry decision.
- To examine how strategic entry decisions are both formulated and formed, the ownership-specific factors are given detailed attributes, while the location-specific factors are considered in general to allow emergent factors to be studied.
- To explain the pattern of decision and to identify different approaches/strategies in the establishment and development of the MNB, the internalisation process is addressed with regard to the process that the MNBs sustain the ownership-specific advantages and the location-specific advantages.

With the above considerations, the mechanism for the formation of entry strategy is established to study the entry strategy as defined in this thesis, and to put forward the research questions into the framework for detailed examination. The conceptual framework is illustrated in Figure 5.1. In the framework, strategic decisions are made

within five postulated constructs, these are:

- i) Formation of the Entry Motive Decision
- ii) Formation of the Entry Mode Decision
- iii) Formation of the Management Control Decision
- iv) Formation of the Marketing Orientation Decision
- v) Parent-FBU Context

Figure 5.1 Conceptual Framework – the Formation of Strategic Entry Decisions of the MNB



Note: Dashed line frames indicate the OLI paradigms, namely, ownership-specific advantages (O), location-specific advantages (L) and internalization-specific advantages (I).

i) Formation of the Entry Motive Decision

The conceptual framework treats the establishment of the strategic motive as one key element of entry strategy formation. Bank-specific resource (BSR), global strategy, and location factors are addressed in the framework for the formation of the entry motive decision.

The concept of BSR is constructed from the resource-based view of the MNB. Some key attributes of the BSR are identified according to the constructs developed by Cho (1985) as discussed already in Chapter 4. The key BSRs include: the size of bank, access to funding source of major currencies, knowledge and experience, network, bank's creditworthiness, skilled personnel, product differentiability, customer base.

The concept of global strategy refers to the overall strategy of the bank. Whether it should be termed international strategy or global strategy is not in question here because the purpose of the element is to reflect the entry strategy potentially formulated already at the parent bank. Here, the concept of formulated is the deliberate strategy as argued in Chapter 4, which means the feasible strategy that is going to be formed further under the emergent factors in the host market.

One dimension of the formulated global strategy is the product segmentation policy, which suggests which customer group is targeted for a specific host market. Banks may target wholesale banking, retail banking, and services for different customer groups in the host market.

The other dimension of the formulated global strategy is the geographical segmentation policy, which suggests which market might be targeted. In this study, it shows to what extent the banking market in China is strategically important.

These two internal factors are in line with Root's (1994) model regarding factors in the entry mode decision. In his model, the internal factors refer to the company product factors, and company resource commitment factors.

The relationship between the two internal factors is reflected in the conceptual framework. The global strategy influences the overall view of how BSR is allocated. In the meantime, the aggregate resources deployed globally may change the view of the global strategy (denoted as [1] in Figure 5.1). The strategic motive decision for a particular host market is directly determined under these two firm-specific factors (denoted as [2]). The literature of the MNE suggests that strategic motives can be market seeking, efficiency seeking, resource seeking or strategic asset seeking.

According to the literature review in Chapter 4, we assume market seeking is the dominant motive in this case while the other three motives have been argued to be typical for the MNB in the banking market of the transition economy. For different customer targets, banks with the full business scope in retail, wholesale and services are different from those specialising in only a part of the full business scope in the host market.

Importantly, strategic motive is determined with considerations of particular market conditions (denoted as [3]). Specific to the transition economy, uncertainties rest on two main aspects as suggested by the review in Chapters 2 and 3. One is the market structure; the other is the regulatory structure. Conditions in both areas indicate both risks and opportunities. They are justified through the establishment of the strategic motive. In the meantime, bank-specific resources provide for conditions under which banks can potentially sustain competitive advantage in the host market.

ii) Formation of the Entry Mode Decision

The framework attempts to explore why the MNB might select and maintain a certain entry mode in a particular host market. In this case the branch entry mode is the focus given that it is the dominant entry mode adopted by the MNBs in China, as discussed in Chapter 2. BSR, strategic motive and the location factors are considered for the formation of the entry mode decision.

An entry mode with a higher level of control indicates more resources are dedicated to the host market. The entry mode decision is directly determined by the strategic motive (denoted as [4]). Based on the context information from Chapter 2, the MNBs in the banking market in China may choose a branch entry mode, or acquisition, or both depending on their strategic motive. Banks may also decide the sequence of development based a particular entry mode selection according to the entry motive.

Each entry mode decision implies a certain type and scale of resources to be dedicated to the host market. Therefore, the entry mode selection is indirectly determined by the BSR. The BSR only implies the potential for resource commitment; but its determining force on the selection of entry mode depends on the decision of entry motive (denoted as [2] to [4]).

The entry mode selection is directly impacted by the host transition economy (denoted as [5]). Both the market conditions and regulatory conditions impact on the selection of entry mode. In this case, the MNB is under the pressure of regulatory forces. Based on institutional theory, regulatory forces may explain why different banks, potentially with different entry motives, may transpire to be similar in their entry mode selection.

Internalisation theory suggests that the cost and benefit of each entry mode is considered. The entry mode decided by the MNB is assumed to be able to sustain the competitive advantage of the MNB derived from its BSR and global strategy.

iii) Formation of the Management Control Decision

The framework argues that decisions regarding management control system can be regarded as one important implementing condition for the internationalisation of service. When entry motive and entry mode are decided, they generate the decisions for the management control system (denoted as [6a]).

The management control system includes three measures of control as suggested from the literature: structural control, authority control and personal control. Each measure is adopted and implemented under two pressures: integration pressure and responsiveness pressure in the parent-FBU context, in which the interplay between the management control decision and the impact by the market and regulatory structure is postulated.

The management control decision is also impacted by local conditions including both the market and regulatory structure (denoted as [7]).

iv) Formation of the Marketing Orientation Decision

The framework suggests that the marketing orientation decision is another important implementing condition for the internationalisation of service. When entry motives and entry mode are set appropriately, they generate appropriate marketing orientation decisions (denoted as [6b]).

The marketing orientation in the host market could either adopt the “following the client” approach, or “search for the clients” approach or maybe both. Each approach is adopted and implemented under two pressures: integration pressure and responsiveness pressure in the parent-FBU context, in which the interplay between the marketing orientation decision and the impact by the market and regulatory structure is postulated.

Similarly, the marketing orientation decision is also impacted by the local conditions including both the market and regulatory structure (denoted as [7]).

v) Parent-FBU Context

Banks are under pressure to create host market specific advantages. This is because the entire inventory of bank-specific resources may not be available to the operational unit in the host market. Furthermore, some resources may not fit in a new environment, or the host government may limit the deployment of the resources. Therefore, only those bank-specific resources that are compatible with the characteristics of the market may sustain economic rents.

The parent-FBU context suggests under a selected entry mode, no matter it is a branch entry mode, or acquisition, the local FBU has to balance between control and development. This argument is discussed more in terms of the implementation side of the strategy formation (denoted as [8]). It also indicates fieldwork for this research requires to be conducted in the local market as discussed in the following chapter.

5.5 Chapter Conclusions

In this chapter, a conceptual framework is developed based on the literature review in Chapter 4 and a further review focusing on empirical literature of the banking FDI.

The review of empirical studies confirms the relevance of the eclectic framework in the study of the MNB. However, the empirical studies indicate the phenomenon of banking FDI have been studied with different research foci based on different theoretical arguments. They have adopted significantly different research methods based on different research contexts. As a result, the application of the eclectic framework has less integration and the ones that did apply the framework have shown obvious weaknesses:

First, less empirical work has been done to explain the entry strategy as defined in this research. The entry strategy in this study means at least four aspects of decisions to be considered together. Those decisions are both formulated and formed in the process of entry. Existing studies tend to focus only on a particular dimension of the entry strategy, mostly on the entry mode selection, a few on the decision of entry timing. In general, studies on a complete concept of entry strategy, according to the investigations made for this study, are missing.

Second, the consistency among different dimensions of the strategic entry decisions has been less addressed. Because of a tendency to focus on the entry mode decisions, empirical studies tend to treat entry motives as given. The potential changes of entry motive have been less considered, thus the dynamics in the formation of the entry strategy have been considered in a static way.

Third, the weaknesses of the eclectic framework *per se* have not been fully explored empirically. The applications of the eclectic view to the study of the entry issues in the context of banking FDI is constrained by the undeveloped eclectic framework itself. According to empirical studies reviewed for this study, most studies are based on economic theories to examine the growth of the MNB in the host market as well as the impact of the growth on the banking market in the host country. Except in this type of

research, anecdotal data are often used to give a general description of the entry phenomenon. The linking between the industry level of observation and the individual bank behaviours in the processes of entry and expansion behaviour is missing. This omitted area is acknowledged in the literature.

Through the examination of the empirical studies, a lack of study in certain areas and fewer applications of OLI in a comprehensive approach are indicated. The weaknesses of the OLI framework are discussed from four aspects: the problem of integrating the multiple perspectives; the lack of strategy in the framework; the lack of firm behaviour studies; and the lack of application for service MNEs. These areas indicate the potential contributions of this study to the literature.

The question of “why banks may differ?” is articulated as a core theoretical concern, and that the answer is expected to fill in the gaps in the existing theories as discussed above. Research propositions are developed in order to guide the analysis of data later. Accordingly, three specific research questions are developed:

- 1) Are the entry strategies of the multinational banks different in China?*
- 2) If the entry strategies of the multinational banks are different in China, why?*
- 3) To what extent have regulations impacted on the entry strategies of the multinational banks in China?*

Finally, a conceptual framework is established which integrates the fundamental concern with respect to the concept of entry strategy, the enabling factors based on the eclectic framework, and the specific parent-FBU context. The framework embraces existing conceptual models and is expected to provide a more comprehensive and suitable framework in this research.

In this chapter, the conceptual framework is established not to challenge the general theory of the MNE, but tries to emphasise the characteristics of banking FDI that have been less addressed in previous studies.

First of all, the conceptual framework decomposes the entry strategy into four different dimensions of decisions, providing a more comprehensive view of the contents of entry strategy of the MNBs than previous research in the same area.

Furthermore, the conceptual framework allows the research to focus on establishing the mechanism that governs the relationships between strategic entry decisions and the relationship between the decisions and the internal and external factors. In the process of establishing the mechanism, the study tries to fulfill the literature gaps, i.e., the unsolved problems in applying the OLI framework in practice.

Finally, the study sets up its own conceptual framework and applies it to a specific emerging market – a market which is full of uncertainties and changes. For a study in such a context, the application of OLI framework is not theory testing but exploratory in nature. With the exploratory approach, the research is expected to bring deeper insights into the strategic behaviour of the MNBs to supplement the traditional theory testing approach.

Chapter 6 Research Methodology

6.1 Introduction

The purpose of this chapter is to identify an appropriate research method and establish the research design for the field work. The methodology is considered through four main perspectives, these are: the philosophical position that determines the appropriate logic of reasoning; the specific method in line with the logic of reasoning; the research design to operationalise the method; and the justification of the method to ensure the methodology works in reality.

The philosophical position concerns the researcher's assumptions about the nature of the phenomenon under investigation (ontology) and the viewpoint of the ways in which knowledge is acquired (epistemology). Section 6.2 argues, in order to have a clear philosophical position, how the ontological and epistemological concerns should be distinguished. Considering the nature of the research questions and the contextual-based study, a position of critical realism is adopted. Based on critical realism, the retroductive logic of reasoning is followed in the theorising process.

The case study method has been selected after making comparisons with other choices of method such as experimental, survey or historical approaches. Section 6.3 explains why the case study method satisfies the requirement of the critical realist position. It also discusses the replication approach for doing the case study. The discussion of the case study method consists of three parts. Section 6.4 focuses on the research design, especially the case selection and protocol. Section 6.5 discusses the data collection with respect to both the instrument and the process of data collection. Section 6.6 focuses on

data analysis methods as well as how to present the case study results. In Section 6.7, the research method is reviewed through a pilot study. The method is then modified as a result of the pilot study especially on the secondary data collection. Section 6.8 concludes with the key points of this chapter.

6.2 Philosophical Perspective

6.2.1 Distinction between Ontology and Epistemology

Generally speaking, all research is based on some underlying assumptions about what constitutes valid research and which research methods are appropriate. The knowledge about the hidden assumptions is important in order to conduct and/or evaluate the research.

Ontology is defined as “the science of being” (Burrell and Morgan, 1979). The concept refers to the researcher’s belief about the nature of social reality. It consists of claims about what exists, what it looks like, what units make it up and how these units interact with each other. The argument of ontology takes the form of premises, which are supposed to derive from sources other than the observation of the world.

Epistemology is defined as the science of the methods of knowledge. The concept refers to how it is possible to gain knowledge about the reality. Epistemology is the theory of knowledge regarding a view and justification of what can be regarded as knowledge, what can be known and what criteria such knowledge must satisfy in order to be called knowledge rather than belief (Burrell and Morgan, 1979; Blaikie, 1993).

In reality, the distinction between ontology and epistemology is not explicit. Ontology and epistemology become merged and confused, resulting in the “epistemic fallacy” (Bhaskar, 1979). Frequently, researchers tend to use observations and an interpretation

to determine the reality, and consequently the ontological dimension is lost.

Distinction between the two concepts is inclined to be more difficult in the social science area. Although social science and natural science can be accommodated within the same ontology framework, the epistemology of social science is inclined to be more complex and diverse than that of natural science; the way to acquire knowledge may vary with social context and with different phenomena, causing the distinction to be less explicit between the two areas of methodological concern in social science.

The solution is to divorce ontology from epistemology so that reality is assumed to exist in its own right. According to Howe (1988) the researcher can try to separate the abstract epistemology argument, which does not connect operationally with the actual research practice used to gain knowledge. Also, Jackson (1995) suggests that the beliefs about reality, as part of the reality and treated as theoretical accounts of objects at an epistemology level, should enter as objects at an ontological level.

6.2.2 The Choice of Philosophical Stance – Realism

Ontology, epistemology and methodology, as three principles of a paradigm, are interconnected (Newman, 1997). Specific to this research, realism is adopted as the philosophical position. The realism approach is adopted because it offers a perspective for viewing the phenomena, which is valid for the explanatory and exploratory nature of this research. It also reflects a way of thinking that is clearly consistent with that of the researcher.

The following discussion is neither an attempt to discredit other philosophical stances nor an attempt to present an extensive critique of other epistemological stances when compared to realism. Rather it represents an attempt to justify the appropriateness of the realist framework as a philosophical perspective within which this research is

carried out.

Within the realist ontology, social reality is composed of three domains: the *empirical*, the *actual* and the *real*. The *empirical* domain encompasses our experiences and observations; the *actual* domain comprises existing events whether or not they are observable; the *real* domain consists of underlying mechanisms and causal powers. Outhwaite (1987:45) argues that realism draws a distinction between the transitive and intransitive objectives of science; the transitive objective of science refers to “the concepts, theories, and models that are developed to understand and explain some aspect of the reality”, the intransitive refers to “the real entities and their relations that make up the nature and social science”. The belief of three domains indicates that, “there are real objects that exist independently of our knowledge of their existence” (Schwandt, 1997:133).

The argument about the transitive and intransitive objectives of science suggests that the epistemological framework of critical realism (Bhaskar, 1979, 1986, 1989; Collier, 1994) is appropriate for this research. Critical realism represents the focus of Bhaskar’s broader transcendental realism (1979). Within the transcendental realism, reality is assumed to encompass independent levels of structure and causal powers in addition to events and outcomes. The objective of the research within transcendental realism is to identify, explain and account for the structure and causal powers underlying the events observed.

This research attempts to demonstrate the existence of a postulated mechanism in a specific and perhaps unique context. In line with the realism paradigm, the mechanism of the formation entry strategy of the MNB is postulated based on the existing theories as discussed in Chapters 4 and 5. The study aims to explain the existence of the mechanism. The mechanism is “hidden” because it is residing in the real domain of

reality. The explanation for the existence of such a mechanism relies on our understanding of how the mechanism acts in social contexts.

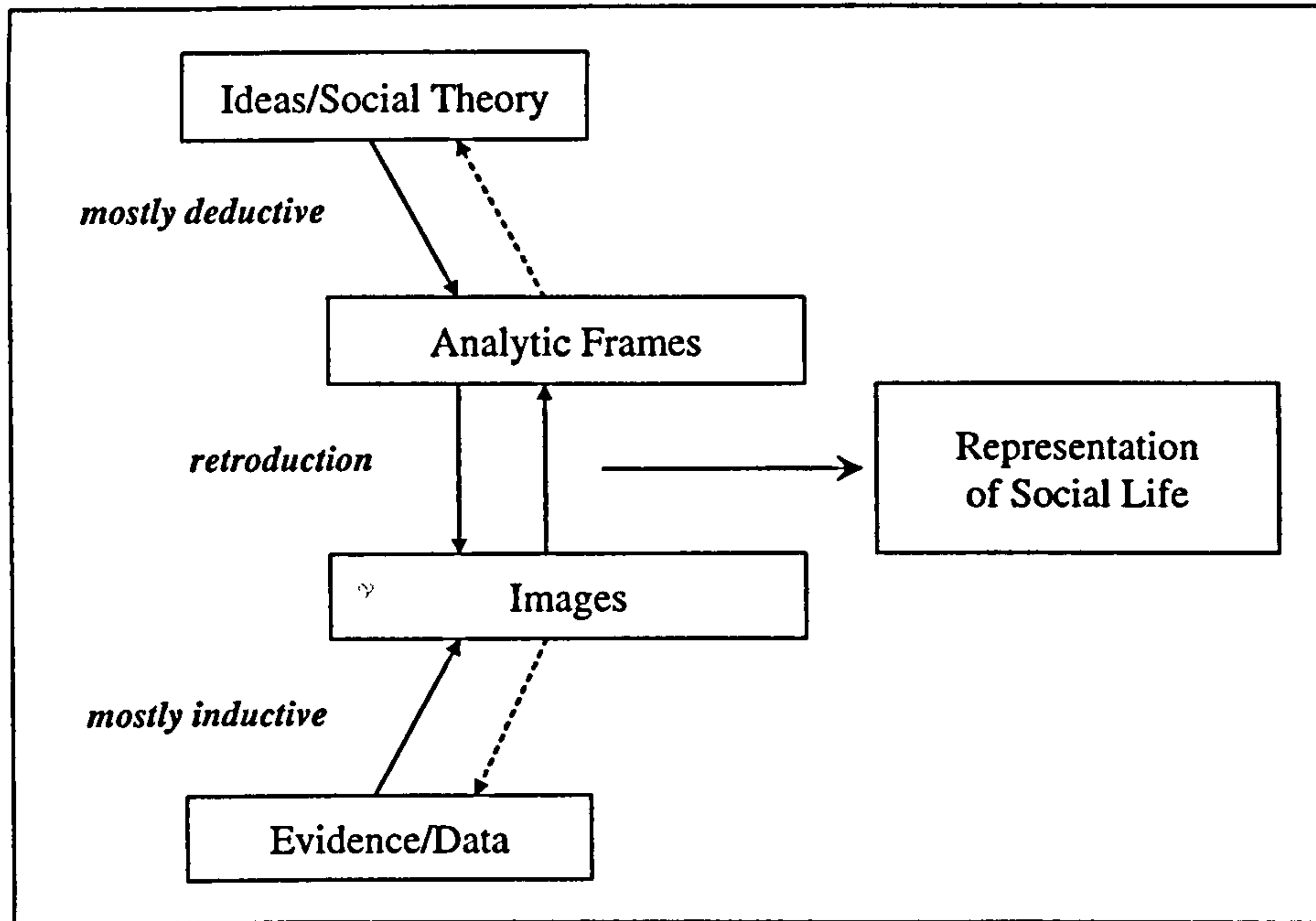
6.2.3 Theory Building Process within Critical Realism

In Chapter 5 literature gaps were identified. The gaps exist between using the eclectic framework to explain the formation of the strategic behaviour of the MNE in general and applying the framework to explain the formation of strategic entry decisions of the MNE. The literature gaps suggest the specific areas in which the literature of MNE can be built up and developed.

It is important to think about the role of critical realism in theorising and conversely, the role of theory within the critical realism-based research. Realist research is characterised by its ability to use models to predict and represent the underlying structure and mechanisms of the phenomena. Models can be further developed through field observations and used to build theory. Similarly, within the critical realism framework, models are seen as the hypothetical description of actual existing structures and mechanisms, which are not available by observation. What the researchers do is to use cognitive powers and the logic of analogy to postulate a model.

Keat and Urry (1976) note that, in the early stages of the process for theory construction, the status of the model as a correct representation, is still highly speculative. Therefore, the realist approach involves adaptation of models and concepts “borrowed” from existing theories (Brown, 1999). Such theorising-building processes suggest a balance of inductive with deductive reasoning in critical realism for the long-term ability of the theory to explain and/or predict phenomenon. As shown in Figure 6.1, the retroductive logic of reasoning can be viewed in a cyclical process.

Figure 6.1 A Simple Model of Social Research



Source: Adapted from Ragin (1994:57).

The term *ideas* at the top of the model is also called “social theory”. Researchers draw on this pool of ideas to help them make sense of things they study. The *analytic frames* are the detailed sketches or outlines of an idea about some phenomenon. Ideas and analytic frames work with each other; ideas are elaborated through analytic frames; frames constitute ways of seeing the things they elaborate. This process is dominated by the deductive logic of reasoning.

The term *images* in the model refers to the building up *evidence*. Images are generated through synthesizing the evidence using the analytic frames. Ragin (1994:66) argues that, “virtually, everything to a social scientist is data, at least potentially”. From an immense amount of data, the researcher selects what seem to be the most relevant portions, and makes sense out of them. Images are constructed by connecting different aspects of cases to form cohesive portraits. This process is dominated by the inductive logic of reasoning. Images are the idealisation of real cases, implying or embodying explanations as guides to further research.

The top and bottom elements in the model i.e., ideas and evidence, interact through images and analytic frames. Ragin (1994:72) explains that, “the dialogue of idea and evidence culminates in *representation* of social life.” In social research, analytic frames and images interact, producing progressively refined portraits or pictures, which become the representation (and the explanation) that the research offers. This process of reasoning is called retroduction.

The dominant logic of reasoning is retroductive for this research. A pure inductive approach (or grounded theory) is not suitable because this research has a clear purpose to build up theories based on existing ones. The grounded theory (e.g., Glaser and Strauss, 1967) approach is not valid or favoured within the critical realist approach. A complete lack of prior knowledge of the research phenomena can lead to unfocused research design, easily distracted fieldwork, and invalid, “flaccid” or even useless data. Similarly, a pure deductive approach is not appropriate because the research questions in this study are not sufficiently narrow or specific to be tested with hypotheses. According to Miles and Huberman (1994), the pure deduction process follows a tightly structured or rigidly coordinated research design, neglecting the highly contextual nature of this research or causing data to be “bent out of the contextual shape”.

The retroduction logic of reasoning suggests that the perception of the world does not always give an accurate representation of the world, neither does it claim to reject all forms of objectivity. The logic of reasoning is an iterative process of developing and testing in order to verify the existence of the variables and relationships proposed by the theory. The implication of the retroduction strategy is that the data-handling procedures are such that they can be termed as “quasi-grounded” in their approach to theory development. The use of semi-structured data collection and analytical procedure should therefore be considered.

6.2.4 Limitations for the Critical Realism

A major problem encountered by taking the realist perspective is the existence of several different epistemological forms of realism. It is difficult to clarify and identify the distinction between each form. We may find more than one form of realism is being expressed in the research method adopted in practice. This research adopts critical realism because it provides an appropriate position from which to integrate most of the aspects of concern. Based on the critical realist concept of causality, the researcher needs to make implicit internal relations explicit (Sayer, 1992).

However, the concept of knowledge in the critical realism and other forms of realism may still face crucial problems. For example, Peter (1992) argues that the fallacy of realism, with regard to how we could judge our perception is a true representation of reality unless we know with certainty what it is. We have to admit that under critical realism, our knowledge of the world is valid only as far as it is the representation of what we know to exist in the world. In the meanwhile, we also have to admit that we are limited by our understanding of what can be regarded as the reality.

In addition, the way to obtain knowledge about critical realism and other forms of realism is arguably problematic. Brown (1999) claims that critical realism has a social ontological perception, i.e., social forms are reproduced in social actions. Such perception is incompatible with the epistemology perception of critical realism, i.e., social structures are deduced from observed social activities. The observed social activities may not represent the actual social action, and the danger is normally that the researcher is unaware of the hidden restrictions of transcendental deduction. One way to deal with this confusion is to adopt a research strategy which does not rely on an excessive use of either induction or deduction methods. Accordingly, this research adopts retroduction strategy, as discussed already in Section 6.2.3.

Finally, there are inherent difficulties in connecting many social structures conceived by critical realism. There is a variety of social relations existing in individual employees, organisations, industries, and nations. The researcher has to decide how the hidden mechanism exists to guide the focus of observation. A solution is to adopt a process of “stratification”, as suggested by Bhaskar, (1993:49-50), to set up a research scenario within which the unit of analysis exists at a macro-level as opposed to a micro-level. In that way, the inherent confusions can be reduced in the analysis to understand what structures are being reproduced and in what way (Bhaskar, 1986:124).

6.3 Research Method

6.3.1 Choices of Research Method

Yin (2003:5) argues that there are three conditions to be considered in choosing a research method, these are: i) the type of research question posed; ii) the extent of control an investigator has over actual behavioural events; and iii) the degree of focus on contemporary as opposed to historical events. The pathway for selecting a research strategy is shown in Table 6.1, which lists the principal techniques available for collecting and analysing empirical evidence in social science, namely, experiment, survey, archival analysis, history, and case study.

Table 6.1 Relevant Situation for Different Research Strategies

<i>Strategy</i>	<i>Form of Research Questions</i>	<i>Requires Control of Behavioural Events?</i>	<i>Focuses on Contemporary Events?</i>
<i>Experiment</i>	how, why	Yes	Yes
<i>Survey</i>	who, what, where, how many, how much	No	Yes
<i>Archival analysis</i>	who, what, where, how many, how much	No	Yes/No
<i>History</i>	how, why	No	No
<i>Case Study</i>	how, why	No	Yes

Source: COSMOS Corporation cited in Yin (2003:5).

The focus of this study is to explain and explore the strategic entry decisions through “how” and “why” type of questions which, following Yin’s categories, appear to favour the use of alternatives such as history, experiment, maybe survey, or case study method. The following discussion seeks to document further the selection criteria.

The research questions do not meet the criteria of “history” strategy in that the study aims to explain contemporary events in this study. The argument about the internationalisation process of the MNB suggests that the entry strategy is both formulated and formed. Within a bounded rationality the strategy only refers to a certain stage of the process of internationalisation. The research also addresses the implementation of entry strategy to produce evidence and data to explain the formation of the strategy. The focus on existing practices is based on the current perceptions of individual actors which would not fit the historical approach as a main research strategy.

However, the denial of the history approach does not exclude the study of archival records to describe the evolution of entry. Based on an evolutionary view of the internationalisation of the MNB, Cattani and Tschoegl (2002) argue that historical and anecdotal evidence from case studies could make the arguments concrete and establish plausibility. The research design takes their argument into consideration as discussed in Section 6.4.3.

The research questions do not meet the criteria of an experiment strategy. Experiment requires a closed system from the contextual factors. However, the contextual factors are of central importance to this research. This study aims to study the formation of strategic entry decisions in its “real life context” (Yin, 1994:13). Therefore, the experiment strategy is immediately dismissed.

The research questions can be partially answered by the survey strategy, which is extensively adopted in international business research, but not widely adopted for the study of the MNB as suggested in Section 5.2.1. Leung, Rigby and Young (2003) and Leung and Chan (2006) conduct surveys to study foreign banking in China. Those surveys may provide clear statistics of the decision patterns of the MNBs at the industry level. However, they did not provide direct evidence regarding why some MNBs have made different strategic decisions from other MNBs.

The above analysis suggests that the case study is more likely to be appropriate for this research. Yin (1994:13) defines a case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. The characteristics of case study strategy are discussed further as follows.

6.3.2 The Appropriateness of the Case Study Method

A multiple case study is adopted in this study. Evidence from multiple cases is considered more compelling and the overall study more robust (Yin, 1994). In contrast to a single case study, multiple case studies bring valuable added depth through comparative analysis, which is considered “exciting” in international business studies (Buckley, 1991). Five components for the adoption of the case study method are argued by Yin (2003:21), these are: i) a study’s questions; ii) its propositions, if any; iii) its unit(s) of analysis; iv) the logic linking the data to the propositions; and v) the criteria for interpreting the findings. The relevance of each dimension to this research is discussed as follows.

i) Research Questions

The three research questions underpinning this study are developed in Chapter 5. The first question is concerned with how the strategic entry decisions are different. The second and the third questions seek to explain the differences of the strategic decisions by understanding the extent to which the internal factors and the external factors have an impact on the strategic entry decisions. The case study approach satisfies the need to answer these questions because it provides a qualitative, in-depth analysis to address the interplay of different factors. It does not require each phenomenon to be independent and in isolated parts (Patton, 1990), which satisfies the eclectic paradigm in that the sub-paradigms are interdependent.

ii) Propositions

Two propositions have been developed in support of the research questions and conceptual framework in Chapter 5; these propositions are:

Proposition 1: The strategic entry decisions of the multinational banks in China are different. The differences are mainly attributed to the differences of the bank-specific resources and the existing strategies of the parent banks.

Proposition 2: Under the coercively imposed regulatory conditions and the underdeveloped market conditions, strategic entry decisions of the multinational banks in China have tended to converge.

Both propositions provide the guidance to identify the relevant information to be collected (Yin, 1994). To be specific, for *Proposition 1*, data collection focuses on the

realised strategic entry decisions in order to identify their differences and similarities. The impact of firm-based factors on the entry strategy is suggested. For *Proposition 2*, data collection focuses on the impact of the external factors on the entry strategy. In the meantime, the interplay between the external and internal factors is indicated. Both propositions guide the exploration of the pattern of the strategic behaviour of the MNB.

iii) Unit of Analysis

The unit of analysis in this study is the mechanism which governs the formation of strategic entry decisions of each case, which are composed of four main dimensions to be analysed. These dimensions are: the entry motive decision, the entry mode decision, the management control decision, and the marketing orientation decision. These four dimensions form the hybrid unit of analysis to be examined across all the cases, forming the actual meaning of “case”. In each case, the analysis attempts to identify the characteristics of each decision dimension as well as the relationship between the decisions under the impact of both internal and external factors. The analysis explains the hidden mechanism as against the conceptual framework based on the logic of reasoning as discussed in Section 6.2.3.

iv) The Logic Linking the Data to the Propositions

Interview data and secondary case information are collected as evidence for generating the representation of the reality in two ways. On the one hand, the data bring evidence of the formulated entry strategy assigned to the host market. On the other hand, the data bring evidence of the entry decisions as actually implemented. Both sides of the information are collected and deduced against the two propositions. The “pattern-matching” approach is adopted as suggested by (Yin, 2003:26). Under this approach, information from the same case is related to certain theoretical propositions.

v) The Criteria for Interpreting Findings

The findings are interpreted and governed by one core argument according to Peng (2000:5) – “Why do firms differ?” as discussed already in Section 5.3.2. Buckley (1991:11) suggests that, “the issue of how real differences are to be identified and how they relate to other elements in society are of crucial analytical importance”. Yin (2003) notes that there is currently no precise way of setting the criteria for interpreting findings. In this study, it is the researcher’s judgment which suggests how close a match two cases have to be in order to be regarded as similar, and how different the evidence from two cases should be in order to suggest that the two cases are indeed different.

A practical solution is to rely on the analysis processes and techniques and make interpretation transparent and systematic. Three methods help to proceed with the interpretation: i) findings that are interpreted as similar entry decisions are displayed and analysed in matrices; ii) findings that are interpreted as different entry decisions across cases are displayed with evidence from each individual case; and iii) both differences and similarities are interpreted together to suggest the pattern of entry decision in each case. Techniques that are applied include analysis through grouping the cases, analysis by different scenarios, analysis by factors and analysis by pattern matching.

6.3.3 Case Study Processes

The case study method has long been argued as “a weak method” (Yin, 2003:xiii) when compared with other methods. Typical weakness has been found in its lack of generalisability because the sample cases are usually small and not random. The data are not “scientific” because they are normally qualitative data and they are doubted for their precision and objectiveness.

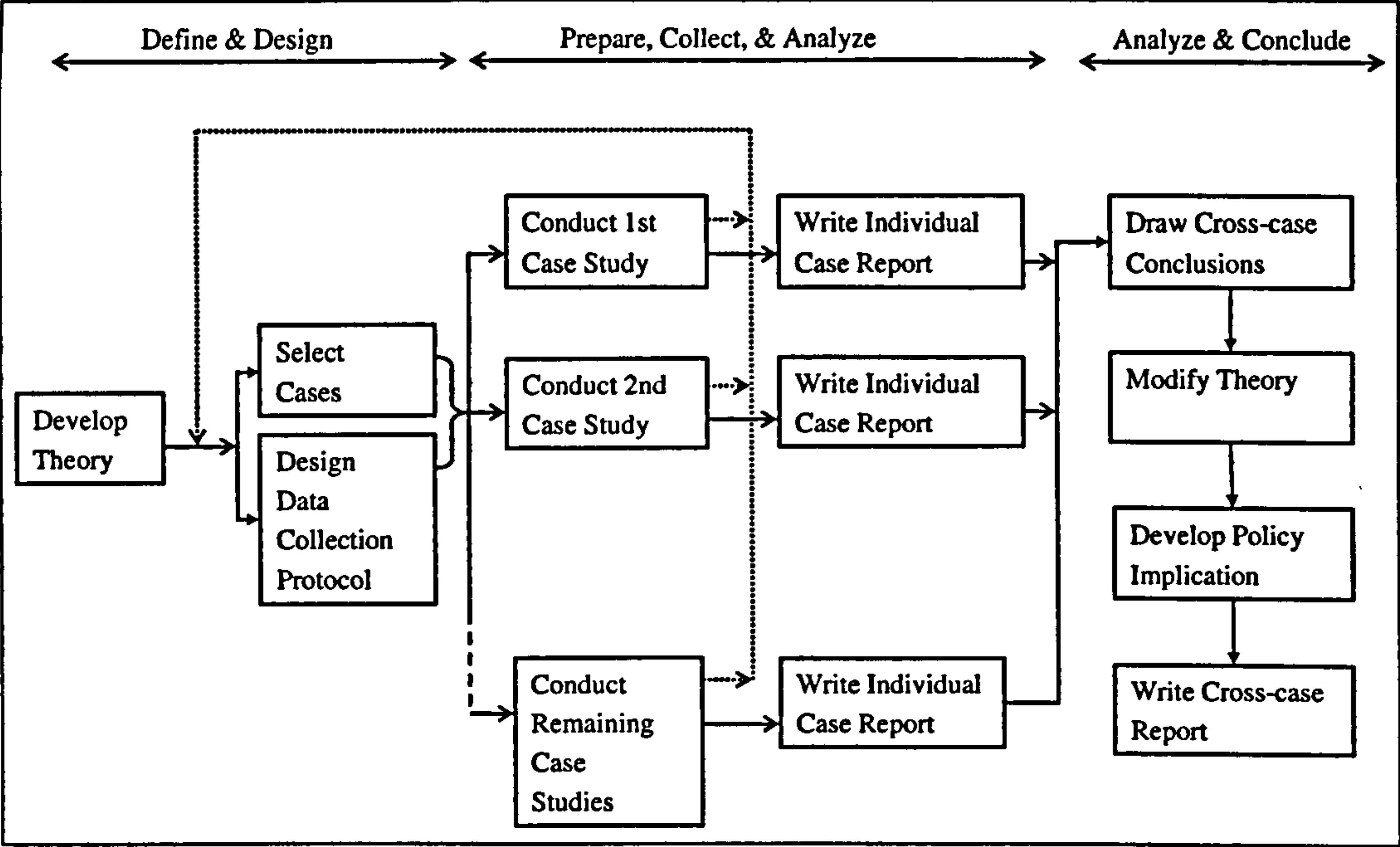
However, examples that support the case studies suggest that in certain circumstances, case studies have to be selected for their powerful results that cannot be easily substituted by other methods.

First, the case study method can satisfy research purposes of understanding the behaviour of specific firms in a specific environment. The potential lack of generalisability can be combined with the richness of cases. For example, Rhoades (1998) finds that the case methodology provided insights into firm behaviour and performance that cannot be captured through other methods. The same argument is found in Cattani and Tschoegl (2002).

Second, the “scientific” approach by alternative methods can be doubted. For example, Godfrey and Hill (1995) argue that measures of resources are problematic because many are intangible. The quality of measurement can also be a limitation to other approaches not specific to the case study method.

Despite the argument to support the benefits of using the case study method, it is a fact that detailed case studies as applied to the MNB are still rare according to the discussion in Section 5.2.1 in Chapter 5. Thus a rigorous case study design is needed to ensure the validity and reliability throughout all phases of the research. Yin (2003) has identified a process of control to enhance the quality of case study research. This process is shown in Figure 6.2.

Figure 6. 2 Case Study Method



Source: COSMOS Corporation cited in Yin (2003:50).

For multiple case studies, as followed in this research, the replication logic is reflected in the three steps of the case study process. The first step involves the research design based on the conceptual framework developed in Chapter 5. In particular, effort is put into the case selection and the establishment of a research protocol. The second step involves preparation and initial studies as well as the analysis based on the main studies. The third step focuses on the main studies, cross comparisons, the findings and reporting.

The important step for the replication logic is the feedback loop as denoted in the dotted line, representing “the situation in which important discovery occurs during the conduct of one of the individual case studies” (Yin, 2003:50). There can be a second round of feedback, which involves reconsidering one or more of the study’s original theoretical propositions. The following discussion highlights certain key steps in the whole process.

6.4 Case Study Research – Research Design

The first main step of the case study is to do the research design mainly in two ways. One is the case selection to provide the rationale for why certain cases, not others are selected for this study. The other is the data collection protocol, which contains the instruments, procedures and rules that should be used for data collection.

6.4.1 Case Selection Criteria

Case studies try to demonstrate and explain the existence of a postulated mechanism regarding the formation entry strategy, rather than conclude the whole population of the MNB. Therefore, cases are selected on the basis of theoretical rather than statistical reasons (Miles and Huberman, 1994; Yin, 1994).

Each case is carefully selected so that it either “predicts similar results” or “predicts contrasting results but for predictable reasons” (Yin, 2003:47). Furthermore, the contrasting results are anticipated so that the mechanism of the formation of entry strategy can be examined and tested in different situations. The key principle that dominates case selection criteria is to select cases with as many different characteristics as possible.

Several criteria are considered to differentiate the parent banks based on the indicators of the banks’ ownership-specific factors such as bank size, multinationality, and product differentiability (e.g., Cho, 1985). A problem with these criteria is that they do not hold constant across cases. To explain further, bank size can be classified in different ways such as by equity, assets, profits or total number of employees. The judgment of the size depends on the adoption of specific measurement. Similarly, it is complex to judge a bank’s multinationality; most of the MNBs are already very multinational. Product specification provides extraneous variations that can cause confusion. Therefore, none

of the above listed criteria can provide definite criteria or “constant criteria” across different cases.

A “constant criterion” avoids providing multiple standards due to potentially different interpretation or application of the criterion. Because the understanding of the criterion is not ambiguous, the selection of each case becomes straightforward.

Constant criteria also enable case selection to be replicable. Replicable case selection is important because the study requires comparing the strategic decisions across multiple cases. For the purpose of comparison, the study selects the most diversified cases based on the constant criteria leaving the relative “non-constant” factors vary across the selected cases.

In specific, three constant criteria are identified, these are: i) home market origin; ii) actual institutional commitment to the local market; and iii) the first entry time in the host market. The three criteria are discussed below.

i) Home market origin

Home market origin is regarded as a constant criterion to differentiate the MNBs. Banks from different market origins are supposed to have based their conduct in contexts that are different from that of the host country market (Kogut and Singh, 1988). The industrial evidence in Section 2.3.1 suggests that foreign banks in China follow their existing clients, i.e., the foreign invested enterprises. It is reasonable to assume a similar concentration of the home market origin between the inflow FDI of the MNE in general and the inflow FDI of the MNB specifically. Accordingly, four groups of banks are identified by home market origin; these are: Hong Kong SAR, Japan, Europe and America.

The above categorization of home market origin, with particular attention to the markets of Hong Kong SAR and Japan for the MNBs from Asia, is in line with the categorisation for the statistics of the main trading partners and FDI investors in China³². In the study of the MNB in China, Leung and Young (2002) divide the home market origin of the MNBs by three main regions including Asia, America and Europe. The study supports the approach taken in this thesis.

ii) Actual institutional commitment

The actual institutional commitment, as represented by the number of branches established, is considered. By regulation, the MNB in China is allowed to establish no more than one branch in one opened city. Therefore, those MNBs with more branches are presumed to have more different geographical presence, hence more actual institutional commitment to the local market given each presence in a different location requires additional investment in every aspect.

The actual commitment may have other indicators such as financial investment, or the total number of staff the bank employs in the local market. However, for either confidential or other reasons no reliable information can be found to support the adoption of those indicators. As a result, for banks from the same geographical origin, the one with the largest number of branches is selected to represent the highest actual institutional commitment to the market in China.

³² According to the Ministry of Commerce of the People's Republic of China, the top five trading partners are categorised as the EU, USA, Japan, ASEAN, and Hong Kong SAR. (<http://english.mofcom.gov.cn/article/statistic/ie/200703044861117.html>) dated June 17, 2007.

iii) First entry

In relation to the actual commitment, the first entry time of the bank is considered. An earlier entrant is presumed to have intensified experience important for the formation of the entry strategy in the local market (Erramilli, 1991). For banks from the same market origin, with a similar scale of institutional commitment, i.e., its number of branches, the one with the earlier first entry time is selected for this research.

6.4.2 Case Selection Results

As shown in Figure 6.3, there are in total 19 home market origins for selection. According to the criteria of home market origin and the actual commitment criteria, the following seven specific market origins are selected.

- Hong Kong SAR³³ is selected to represent the MNBs from Asia. Japan is selected, which is regarded as distinct from other market origins from Asia.
- France, UK and Germany are selected to represent the market origins from Europe. Other market origins are excluded because fewer branches have been established by the MNBs from those markets.
- U.S.A and Canada are selected to represent the market origins from North America.

The selection tries to choose the cases from different geographical origins. The three main geographical origins, i.e., Asia, Europe and America are selected based on the existing presence of the MNBs from those areas as they invested in China. At least one specific market origin is selected from each geographical area.

³³ According to CBRC (2004, 2005), Hong Kong SAR is regarded as one of market origins of the foreign MNB to China.

Figure 6.3 Home Market Origins as Criteria for Case Selection

Branch Locations																											Total Number of Branches	As a % of the Total Number of Branches
Home Market Origins	Shanghai	Beijing	Shenzhen	Guangzhou	Tianjin	Xiamen	Dalian	Qingdao	Shantou	Zhuhai	Nanjing	Suzhou	Fuzhou	Wuhan	Chengdu	Hangzhou	Shenyang	Haikou	Kunming	Shekou	Xian	Chongqing	Total Number of Branches	As a % of the Total Number of Branches				
	6	4	11	4	1	3	3	2	2	1	1	1	2	1	1	1		1		1	1	1	48	27.12%				
	4	3	3	1	3		4	1				1				1							21	11.86%				
	5	2	2	4	3	1								1									18	10.17%				
	5	2	1	1	4		1	2									2						18	10.17%				
	4	4	1	2	2	1																	14	7.91%				
	3	2	1	2	1	2									1								12	6.78%				
	2	1	1	1	1	1				1	1												9	5.08%				
	5	2		1																			8	4.52%				
	3	1	1																				5	2.82%				
	1		1				1			1										1			5	2.82%				
	2			1	1						1												5	2.82%				
		1											1										4	2.26%				
	1	1																					2	1.13%				
	2																						2	1.13%				
	1	1																					2	1.13%				
			1																				1	0.56%				
	1																						1	0.56%				
	1																						1	0.56%				
	Total Number of Branches		46	25	23	19	15	9	8	5	3	3	3	2	2	2	2	2	1	1	1	1	1	177				
As a % of the Total Number of Branches		25.99%	14.12%	12.99%	10.73%	8.47%	5.08%	4.52%	2.82%	1.69%	1.69%	1.69%	1.13%	1.13%	1.13%	1.13%	1.13%	0.56%	0.56%	0.56%	0.56%	0.56%	0.56%					

Note: 1) The statistics do not cover banks without branch establishment; 2) The geographical origin is defined by the bank registered with the regulator.
Source: Registered List of Names of the Foreign Banks in China (CBRC, 2005); The People's Bank of China Quarterly Statistical Bulletin (as of the end of 2005).

In the case selection, the number of branches established by the MNBs is an important indicator. The importance of the branch as the main entry and operational mode has been discussed in Section 2.3.2. The establishment, closure and operation of branches suggest crucial decisions in the formation of entry strategy of the MNBs in China.

As a result, seven cases are selected with one MNB chosen from each specific market origin. In addition, two more cases, one from the Hong Kong SAR and one from Germany are selected for the pilot study. One more case from Japan is selected to ensure enough access. In total ten cases are included in this study.

The above approach to select the market origin of the MNB is in line with the approach taken by Luo and Park (2001:147). In their study of the MNE in China, the same seven market origins are included in their study. They also include Australia. In this study, Australia is excluded because of a low presence in the local market.

Researchers use the point of saturation to argue the number of cases selected. Gummesson (1991) refers to the point of saturation as the point where there is no marginal worth of doing another case. Researchers may find judging the added worth is problematic because as the framework is modified from the previous added case, the criteria to judge the added worth might change. The concept of point of saturation exists more in theory than in reality. On a practical level, the credibility of findings, costs and time constraints are considered in choosing the appropriate number of cases. As a result, ten representative and diverse case banks are selected with the basic information summarised in Table 6.2.

Table 6. 2 Summary of the Selected Cases

Basic Profile	Case 1	Case 2	Case 3	Case 4	Case 5
Year of Establishment	1918	1957	1966	1996/2006 (merger event)	1876
Home Market Origin	Hong Kong SAR	Germany	France	Japan	Japan
Size of Branch Network	160	960	2070	785	640
Multinationality	>10	>50	>85	>40	>40
Total Assets (USD Million)	30,798	5,44,199	1,483,933	1,362,598	884,978
Main Business	Personal Banking, Corporate Banking, Investment Banking, and Corporate Services	Personal Banking, Private and Business Banking, Corporate Banking, Institutional Restructuring, and Corporate Investment	French Retail Banking, International Retail Banking, Asset Management and Services, and Corporate and Investment Banking.	Retail Banking, Commercial Banking, Global Corporate Banking, Investment Banking and Asset Management	Consumer Banking, Middle Market Banking, Corporate Banking, Investment Banking, International Banking, and Treasury Markets
First Entry in China	1987	1993	1986	1986	1992
Total Branches	11	2	5	5	5
With Equity Investment	NO	NO	YES	NO	NO
Basic Profile	Case 6	Case 7	Case 8	Case 9	Case 10
Year of Establishment	1817	1957	1812	1853	1865
Home Market Origin	Canada	Germany	USA	UK	Hong Kong SAR
Size of Branch Network	1182	1588	7919	1400	9600
Multinationality	>10	73	>100	>50	76
Total Assets (USD Million)	249,712	1,170,277	706,497	215,096	344,687
Main Business	Personal and Commercial Banking, Private Banking, and Investment Banking	Corporate and Investment Banking, the Private Clients and Asset Management, and Corporate Investment	Global Consumer, Corporate and Investment Banking, and Global Wealth Management (group)	Wholesale Banking and Retail Banking	Personal Financial Services, Commercial Banking, Corporate, Investment Banking and Markets, and Private Banking (group)
First Entry in China	1994	1994	1988	1985	1986
Total Branches	2	3	5	8	10
With Equity Investment	NO	YES	YES	YES	YES

Note: 1) First entry in China is based on the establishment of the first branch; 2) Total number of branches is by the end of 2004.

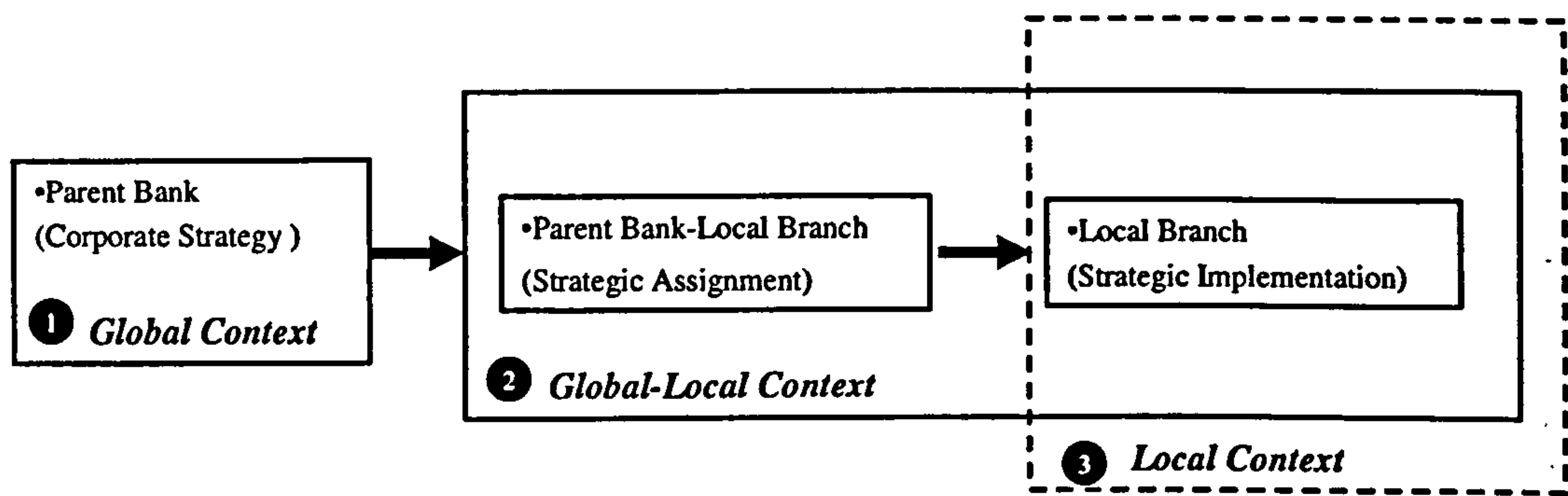
Source: Annual Report (2006); Case bank website; Bankersalmanac, <http://www.bankersalmanac.com>

6.4.3 Case Study Protocol

i) The Level of Study

One rule for the case studies in this research is with regard to the level of study. As shown in Figure 6.4, three levels of study are identified; these are: the global context, the global-local context and the local context. The three levels form the complete context for each case. Each context requires a different method for data collection.

Figure 6.4 The Contextual Boundary of the Case



The first context is with regard to the global context of the bank. Strategic entry decisions are viewed from the parent bank’s perspective at a corporate level. Since the MNBs usually have a wide and diversified scope of business, the data and evidence collected based on this context may not directly relate to the behaviour of the bank in specific local markets.

The second context is the global-local context. Strategic entry decisions are viewed from both the parent bank’s and local branch’s points of view. In general, the local branch is assigned the strategic role through a subsidiary or a head office that may or may not be located in the local market. Therefore, the collection of evidence and data is subject to the identification of the appropriate information channel.

The third context is the local context. By definition, a local branch has no legal identity; they are mainly the operational business units to implement the strategy determined by the parent bank through an agent in the context of parent bank-local branch. The strategy implementation can be directly observed and the data and evidence are most relevant for the purpose of this research.

The local context is directly studied in order to understand how strategy is implemented and realised under the factors in the local market. In contrast, the global context is less addressed because it does not provide direct evidence on the implementation side of strategy. Therefore, the data collection is mainly based on the local context.

Furthermore, the distinctions between wholesale banking, retail banking and banking services are considered in order to clarify the research context. Chapter 3 suggests corporate banking is the dominant business of foreign banks in China. Therefore, the context of the corporate banking business, in particular the corporate lending business, is the focus of this research.

A foreign bank may take a single mode or multiple entry modes, hence providing different options from which the researcher can observe its activities. The study can be based on banks' activities through all forms of banking presence in China. Or, it can be based on a single form of presence, which has been commonly adopted by most foreign banks. The study is based on the branch context mainly because it is the entry mode that has been widely adopted by all the MNBs as suggested in Chapter 2. The data collection also includes the alternative entry mode if the bank has adopted different entry modes.

ii) The Protocol for Case Database

Although the three parts of context for each case exist, as discussed above, in reality, data and evidence from the three contexts are interrelated. To deal with the complex information, two instruments are designed.

For the primary data, collected mainly from the local context, an interview instrument is designed. The data collection is subject to the researcher being able to gain access to

bank managers. The design of the interview instrument is discussed further in Section 6.5.1.

For the secondary data, collected mainly from the global context, the guidance for establishing a case database is designed in order to collect only the relevant information indicated by the conceptual framework. Qualitative and descriptive quantitative data are included. Access to data for this context is more under the control of the researcher.

The secondary data collection has the aim of establishing the overall picture of foreign bank activities both globally and in the host market. The sources of secondary information include: i) open documents from a bank's archives such as the annual reports and banks' website information; ii) internal press reports; iii) external analysts' reports; iv) potential information from the regulators; and v) scholarly books and articles.

A case database is developed based on the secondary data organised by the framework shown in Table 6.3. The secondary data are deployed to interpret the global strategy of the bank relevant to the host banking market. They also provide direct information relating to the bank-specific resources for the argument of the ownership-specific advantages of the parent bank.

The primary and secondary data triangulate because they are collected from different sources and relate to different aspects. By triangulation, the relation of the two parts of data can thus be threefold. The results may converge leading to the same conclusions; they may also relate to different objects but are complementary to each other; and, they may diverge or contradict. In this research, the secondary data are collected mainly for supplementing the analysis of the primary data.

Table 6.3 Framework of Case Database based on Secondary Information

Dimensions	Potential Indicators for Data Collection
1. Establishment of the Bank	
1.1 year of establishment	
1.2 most recent merger and acquisition	(which may relate to the investment in China)
1.3 the nature of the bank	e.g. universal bank or commercial banking focused
1.4 main business scope	
2. Bank-specific Resource	
2.1 size	size of bank capital or domestic deposits
2.2 access to funding	size of major currency deposits
2.3 global knowledge and experience	size of bank's foreign lending and deposits
2.4 local knowledge and experience	number of years of banking operations in particular market
2.5 scope of network	number of foreign offices of a bank globally number of countries in which a bank has offices
2.6 bank reputation/creditworthiness	bank rankings
2.7 availability of skilled personnel	skilled (international banking officer)/total employee ratio interest-based income/total income constituted by interest-based and non-interest based
2.8 product differentiability	expenditure on marketing & product development/Operating income ratio
2.9 possession of customers with international involvement	customer groups' foreign sales (or development/Operating income ratio
2.10 advantage in risk management system	description by the bank
2.11 possession of unique bank culture	description by the bank
3. Bank Performance in Recent Years	
3.1 performance described in the annual report	financials in the annual reports
4. Resource Allocation (asset allocation)	
4.1 business segment analysis	
4.2 geographical segment analysis	
5. Bank Presence in China	
5.1 first year entry in the market	
5.2 branch establishment	
5.3 other forms of operation	
5.4 total number of employees	
5.5 general comments on the performance	

Note: 1) The bank-specific resources have been based on Cho (1985); 2) The protocol provides the expected secondary data to be collected, some of which is not available as discussed in section 6.7 in this chapter.

6.5 Case Study Research – Data Collection

6.5.1 Interview Instrument

In terms of the form of the interview questions, the choices include structured, semi-structured and open-ended questions. Structured questions limit possible responses but give the researcher a degree of control to obtain the information needed. Unstructured questions allow the interviewees to elaborate, but they are more suitable for building grounded theory. In comparison, semi-structured questions are designed to have an initial question followed by probes. The retroduction strategy also requires semi-structured data to be collected, as discussed in Section 6.2.3.

Interview questions can be designed in a standard or tailored way according to different seniorities and positions of the interviewees. Standard questions are adopted in this study because they reduce the need for the researcher's judgment during the interview and make data analysis more manageable (Patton, 1990). In banking, the operation of the front, middle and back offices relies on close cooperation, monitoring and supervision relationships across functions. Therefore, standard questions are not expected to create any problems, i.e., that some questions can only be answered or understood by certain people, rather than all of them. In the meanwhile, because of their different positions in the firm, for the same question managers may either provide similar answers, they may confirm the answer or provide a different answer, in order to provide a complete answer to the researcher.

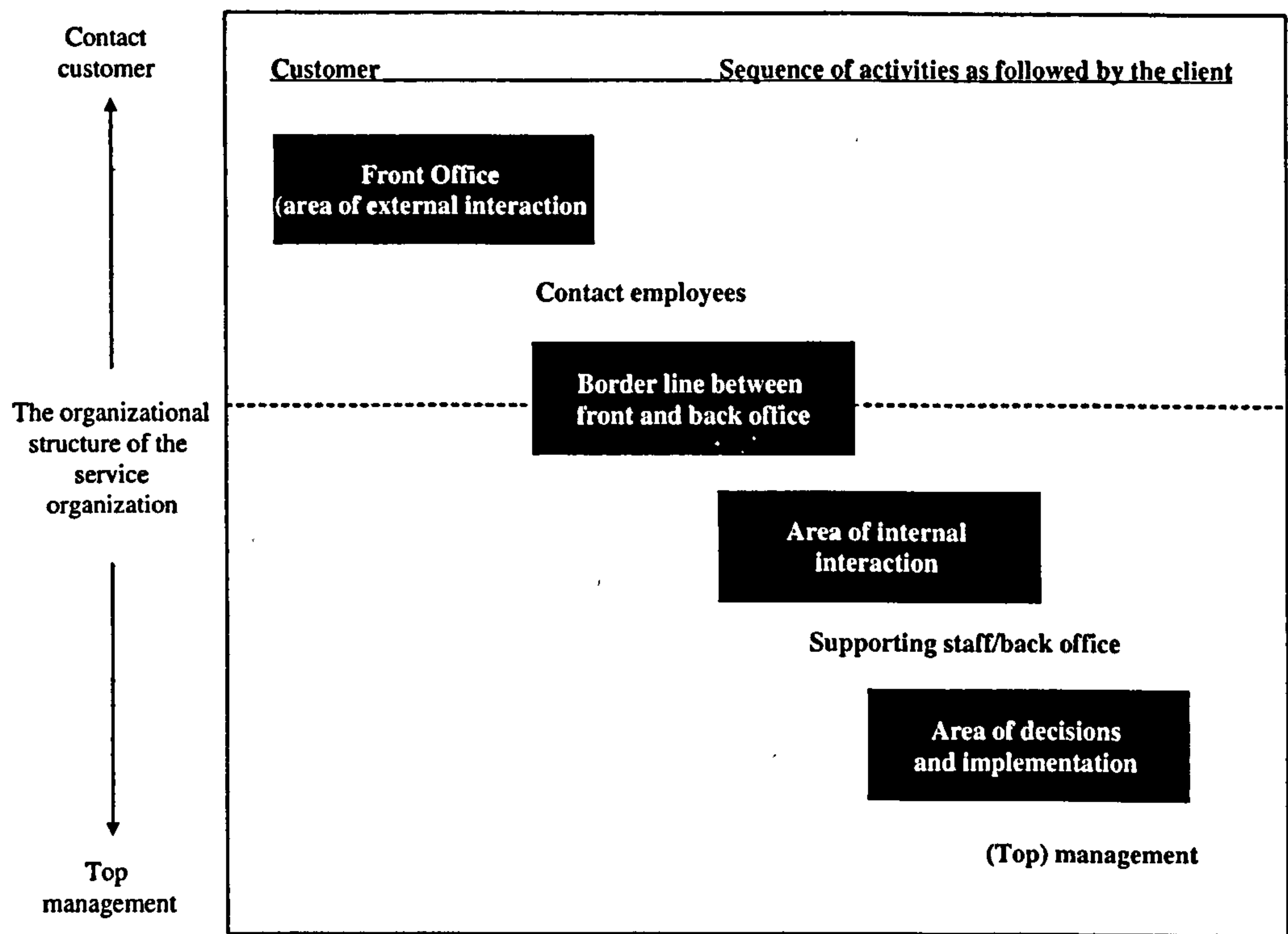
To maximise the value of each interview opportunity, flexibility of the question design is considered in three ways. First, for each single interview, the researcher can follow up new points or alternative interpretations based on the semi-structured questions. Second, for each case, the researcher can search for answers if the point is believed not to be completed during the interview. Third, for each case, when answers to some questions are considered saturated, the researcher can tailor certain questions to suit seniority or positions of the interviewees. The questionnaire or the meeting guideline for the interview is shown in Appendix B.

6.5.2 Choice of Informants

Although individual bank managers are the unit of data collection for the primary data, it is not the intent of this research to explore how individual actors perceive the formation of the strategic entry decisions. Nevertheless, the background of each interviewee may influence the content and quality of the data to be collected. Four backgrounds of interviewees are considered in four dimensions; these are: i) position; ii) seniority of interviewees; iii) expatriate experience; and iv) industry experience.

First, key functional managers were targeted. As shown in Figure 6.5, a service firm is normally structured into four main areas following the sequence of activities with the customer (Kasper *et al.*, 1999). These areas are: i) the front office which has both the first and close contact with the customers; ii) the middle office in between the internal and external parts; iii) the back office for supporting the front office; and iv) the top management.

Figure 6. 5 The General Structure of a Service Firm



Source: Adapted from Kasper *et al.* (1999:461).

In this study, interviewees are targeted based on four positions, namely, the marketing officer in the front office; the operations officer in the back office; the risk manager, including the compliance manager, in the middle office; and the general managers.

Some functional managers are given a dual title. For example, in Case 1, the deputy general manager of the bank has the dual role of marketing and operations. In Case 2, middle managers are responsible for the marketing and operations. In Case 8, the country level manager is also the marketing officer for the branch. Therefore, positions cannot be compared only by title; rather the actual role played by the interviewee is more relevant. A detailed explanation of the position is presented in Chapter 7.

Second, the seniority of the interviewee is important because it directly affects whether the interviewee is able to provide an expansive understanding of strategy. In five cases, senior managers at the country business level were not available to be approached. When the country level managers were not available to be approached, or these positions do not exist, the branch managers were approached. The only exception is one Japanese bank in which only the middle managers were available. A detailed classification of the seniority levels is given in Chapter 7.

Third, whether or not the interviewee is an expatriate is considered. Expatriates are found to be more informed about overall bank policy and are thus able to give more expansive answers regarding strategy than locals. By contrast, the local employees are more able to provide insights at the operational level. Not all the expatriates are from the home country origin of the parent bank. They might be sent from the subsidiary banks located in markets close to China such as Hong Kong, Singapore or Taiwan. In this study, nineteen out of a total of thirty-five total interviewees are expatriates. This means that over half the interviewees are from their home markets or have worked close to their parent banks. For each case, expatriate and local employees are interviewed. The only exception is in Case 2, where all four key managers are expatriates.

Fourth, the industry experience of interviewees is considered. The background of each interviewee provides a reference for the researcher to justify the depth of response from

the interviewees. The background experience of the interviewees can be indicated in four ways: i) the length of banking experience; ii) the number of banks served previously; iii) the local banking experience based on the number of years of working by the expatriate, and iv) the overseas banking experience based on the number of years of working overseas by the local employee.

Most expatriates interviewed are experienced bankers with years of experience of working for the same bank. Expatriates from three banks are experienced in the local Chinese market – these are Cases 1, 2, and 9. If interviewees do not have a long term direct working experience in China, they are experienced in working in Asia – these are Cases 3, 8 and 7. An exception is Case 10, for which the two local managers were interviewed. Both managers have been trained as managers for two years in the parent bank.

Most local employees interviewed are also experienced bankers in China's banking market. In some cases, their experience is based on the case bank. In other cases, managers have worked at more than one foreign bank in China. Their experience at other banks can provide comparative opinions at the national level. In contrast to the experience of expatriates, their overseas working experience in the parent banks is extremely limited. An exception is Case 10 where the two interviewees have been working and were trained at the parent bank.

Besides the four main dimensions of the background, interviewees based in branches located either in Beijing or Shanghai are targeted. This is because the two locations have attracted most of the foreign banks in China as discussed in Chapter 2. Although Beijing is a relatively new city to be opened for foreign banks, its development has been rapid. Also for the convenience of data collection, these two closely located cities are targeted for selecting interviewees. A detailed description of the profile of the interviewees is shown in Table 6.4.

Table 6.4 Profile of Interviewees

No.	Case & Branch Location	Experience (yrs)	Overseas Experience (yrs)	Numbers of Banks	Gender	Chinese	Expatriate	Position	Seniority	Interview Length (min)	Interview Date
1	Case 1	6	short	1	F	yes	no	Operation	M	90	05-12-6
2	Beijing	7	3 in China	1	M	yes	yes	Credit & Compliance	M	90	05-12-9
3		11	17 in China	1	M	yes	yes	Operation	S-DGM	90	05-12-12
4		9	7 in China	1	M	yes	yes	Marketing	S-DGM	90	05-12-18
5	Case 1	11	short	1	F	yes	no	Operation	S-DGM	110	05-12-13
6	Shanghai	6	short	1	F	yes	no	Compliance	M	90	05-12-22
7		10	short	1	F	yes	no	Credit	M	60	05-12-22
8		11	short	1	F	yes	no	Marketing	S-DGM	60	05-12-23
9	Case 2	13	4 in China/10 in Asia	1	M	no	yes	Management	S-GM (China)	60	05-12-21
10	Shanghai	11	5 in China	1	M	no	yes	Operation	S-COO (China)	100	05-12-29
11		17	12 in China	1	M	no	yes	Credit	M	120	05-12-30
12		26	8 in China/16 Oversees	1	M	no	yes	Marketing	S	90	06-4-16
13	Case 3	13	2 in China, 10 in Asia	2	F	yes	yes	Marketing	S	50	06-2-14
14	Beijing	12	9 in China	1	M	no	yes	Management	S-GM (China)	50	06-2-14
15	Case 4	>10	>10 in China	1	M	no	yes	Management	S-DGM	30	06-2-17
16	Beijing	16	short	1	M	yes	no	Operation-Planning	M	60	06-2-17
17		17	short	1	M	yes	no	Marketing	M	60	06-2-17
18	Case 5	20	10 in China	1	M	no	yes	Marketing	M	120	06-2-21
19	Shanghai	14	short	1	F	yes	no	Operation	S-DGM	60	06-2-28
20		14	3	1	M	no	yes	Credit	M	60	06-2-28
21	Case 6	27	>15	1	M	no	yes	Management	S-Head (Asia)	120	06-3-2
22	Beijing	11	short	4	M	yes	no	Marketing	M	90	06-3-21
23		13	short	2	F	yes	no	Operation	S-DGM	30	06-3-21
24		30	22	1	M	yes	yes	Management	S-GM	50	06-3-24
25	Case 7	9	short	2	M	yes	no	Operation	S (China)	90	06-4-14
26	Beijing	13	short	2	M	yes	no	Marketing	S (China)	70	06-4-11
27		16	4 in China	1	M	no	yes	Management	S-COO (China)	75	06-5-12
29	Case 8	17	17 in China	1	M	yes	yes	Marketing	S (China)	60	06-3-3
30	Shanghai	13	short	2	F	yes	yes	Compliance	M	90	06-4-18
28	Case 9	25	20	1	F	yes	yes	Management	S-GM (China)	120	06-2-27
31	Beijing	25	2 in China	1	F	no	yes	Marketing	S (China)	60	06-4-12
32		10	short	6	M	yes	no	Operation	S (China)	90	06-4-12
33		18	short	1	F	yes	no	Credit	M	90	06-4-14
34	Case 10	6	short	1	M	yes	no	Marketing	S (China)	60	04-4-19
35	Shanghai	14	short	1	M	yes	no	Management	S-GM	60	06-4-19

Note: 1) F=Female; M=Male; 2) S=Senior Manager; M=Middle Manager; GM=General Manager; DGM=Deputy General Manager; COO=Chief Operation Officer.

An alternative group of informants would have been executive bank managers in the parent bank; those managers are in charge of the operation of the China market but based outside of China.

However, for several reasons, the informants from the parent banks are not approached. First, the pilot study reported in Section 6.7.1 suggests that the fieldwork should be based on the branch rather than the parent bank if the formation of entry strategy is the focus. The pilot study also suggests that it is very difficult to identify the right person in the parent bank to obtain relevant information. In addition, it is sensitive to access to those managers if they are involved in the formulation of entry strategy in China. It is time-consuming and expensive to visit the parent banks of the ten cases. Therefore, the informants are mainly from the local market. The limitation of doing so is discussed in Section 10.4.3.

6.5.3 Access to the Interviewees

The issue of access is crucial for the case study approach in this research. The banking industry is information-sensitive as banks operate under strict information exposure controls, which impede external investigators in gaining access to information. Obtaining formal approval through the internal control processes is both time-consuming and sensitive. Four approaches have proved to be practical and useful in order to gain access to the interviewees.

The most efficient approach to the foreign banks was based on the recommendation of key corporate clients of the bank. Large corporate clients are important to the bank not only because banks need to maintain existing business relations with them, but also because they are key customers on whom banks rely for future expansion in China. As a result of this approach, five cases were successfully accessed.

Another way to approach foreign banks is through the researcher's personal relationship, with key local bank managers. Skilful and experienced staff are an un-substitutable competitive resource. They are important for a banks' expansion in the uncertain environment in China. As a result, two cases were accessed through the researcher's

close relationship with local bankers.

The third approach was based on the established relationship with the local regulator. In order to investigate the regulatory framework of foreign banking in China, the researcher conducted a four-month primary fieldwork exercise for the China Banking Regulatory Commission (CBRC) in 2005. Under the recommendation of the regulator, access to one Japanese bank was successful.

The last important approach is to gain access through a related research project. The researcher became involved in research initiated by the CBRC and the EU-China Financial Services Co-operation Project. Because of the closeness of both projects, the opportunity to access more foreign banks was expanded. As a result, access to two European banks was created.

The replication approach requires that case studies be conducted one by one. Each case study adds justification to the research design through the feedback loop, as discussed in Section 6.3.3. In order to satisfy this requirement, each case was conducted in a relatively concentrated time period.

The experience of accessing case banks suggests the potential real challenges in using a case study approach in information-sensitive industries. The access results show that personal relationships and long-term internal relationships are crucial to being able to approach bank managers.

The four approaches adopted in fact suggest that each stakeholder of foreign banks can provide the opportunity to access data. These stakeholders are the key corporate clients, key internal local managers, regulators, and key business intelligence. Each approach has its own way to make contact with the individual banks, and each has its advantages and disadvantages to ensure the validity of data and efficiency for the completion of the project as planned.

6.6 Case Study Research – Data Analysis

6.6.1 Analytic Strategies

A general analytic strategy evolves round “defining priorities for what to analyze and why” (Yin, 2003:109). In this study, having an analytic strategy is important because the primary interview data are predominantly verbal and in written form. The quality of analysis depends on the researcher’s style of rigorous thinking. Without a decision concerning what to analyse and why, the purpose of the analyst might not be accomplished or the researcher may encounter many falsehoods and potentially wastes time.

Miles and Huberman (1994) divide data analysis into three concurrent flows of activity: data reduction, data display, and conclusion drawing and verification. The strategy of analysis is set for each dimension. Accordingly, the analysis has the following five steps:

Step 1 involves data reduction. Using the content analysis technique, the interview data are coded according to the coding system. In the meanwhile the data from other channels are organised to create the case profile according to the protocol discussed in Section 6.4.3. The developed coding system based on the content analysis is seen in Appendix C.

Step 2 involves cross-case analysis based on the theoretical themes already postulated and the emerged themes according to the conceptual framework. More specifically, four strategic entry decisions construct the analysis framework including the entry motive, entry mode, and management control as well as the marketing orientations. This part of the analysis is presented in Chapter 7.

Step 3 involves further cross-case analysis. The grouping technique is adopted to identify multiple patterns of the strategic entry decisions. The analysis based on projecting different scenarios according to the interview data is also conducted in order

to indicate the stability and potential dynamics of the grouping results. This part of the analysis is presented in the first part of Chapter 8.

Step 4 involves the analysis and explanation of the formation of entry strategy. The case profile data are analysed together with the interview data for each pattern of strategic entry decision. The analysis by factors is adopted to see if the internal profile matches the decision results and how each case responds to the external factor. This part of the analysis is presented in the second and third parts of Chapter 8.

Step 5 extends the analysis through a discussion based on the propositions. Yin (2003) argues that the most preferred analytic strategy is based on theoretical propositions. Using theoretical orientation to guide the case study analysis, the researcher can focus attention on particular data and ignore other data. In this research, propositions regarding how entry strategies are formulated or formed under the impact of internal and external factors guide the case study analysis. This part of the analysis is further developed in the discussion part of Chapter 9.

6.6.2 Content Analysis Techniques

Content Analysis Processes

Content analysis is adopted as the main technique for data analysis. Content analysis aims to “make replicable and valid inferences from texts (or other meaningful matter) to the texts of their use” (Krippendorff, 2004:18). The content analysis technique is concerned with three issues: analysis process, coding techniques and data display.

In terms of the analysis process, analysis is carried out with the use of QSR NVivo (Richards, 1999). Compared with manual analysis, QSR NVivo eliminates the labour-intensive work in organising data for analysis. The researcher can attach a coding framework to particular topics, themes, categories, attributes and dimensions. The software makes it easier to retrieve, record, re-file and enumerate coded items and relate them to one another. The NVivo software allows these processes to be conducted

in a systematic and flexible way. The analysis processes include: organisation, indexing, coding, searching, and theorising.

- i) Organising data begins with the transcription of the interview tapes. In this research, it is done in entirety, not selectively. Interviews undertaken in Chinese are transcribed directly into English. All the data are stored into NVivo software ready for analysis.
- ii) The interview transcriptions were indexed using standard headings and subheadings. Data are reduced by structured interview questions to address each of the dimensions that are of interest to this research. Sometimes the interviewees answer questions in a different sequence to that indicated by the guidelines. Sometimes in order to probe the question at the appropriate time the researcher changed the sequence of questioning. In these circumstances, the content was not rearranged according to the headings so as to maintain the original flow.
- iii) The evidence already gathered is further reduced through coding in order to identify and analyse important themes discussed in each of the dimensions studied. Based on Miles and Huberman (1994:56) codes refer to “tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study. Codes usually are attached to “chunks” of varying sizes – words, phrases, sentences, or whole paragraphs, connected or unconnected to a specific setting”.
- iv) The next step is to search content based on the purpose of the analysis. This process involves investigating and browsing the transcriptions and comparing them with the existing codes. The purpose of doing so is to redefine the existing codes or create another code to cater for the new elements.
- v) The final step in analysis is theorising. Theorising, or interpretation, involves making sense of the evidence, with reference to the conceptual framework, with the aim of finding connections between the evidence attached to the codes that would enable new theories to be developed and existing theories to be tested. Qualitative

evidence is presented in an organised manner that would allow interpretations and conclusions to be made.

Coding Techniques

Coding is the main activity of developing analysis through which data are “fractured, conceptualized, and integrated to form the theory” (Strauss and Corbin, 1998:3). Because the analysis is inherently open-ended, such an emergent induction process can easily produce frustration and anxiety (Lofland and Lofland, 1994). Hence, adopting appropriate coding techniques and designing coding processes are crucial.

Based on Strauss and Corbin (1998), three coding techniques have been developed for the grounded content analysis. These techniques are open coding, axial coding, and selective coding. Although these techniques are designed to build grounded theory, they were applied in different parts of the analysis based on the semi-structured analysis approach.

i) Open coding

Open coding evolves activities of “opening up” the text in order to expose the thoughts, ideas, and meaning contained therein. Researchers code the text line by line to discover concepts in the data. Once concepts begin to accumulate, similar concepts are grouped under more abstract concepts, termed “categories”. Each category is developed in terms of properties (characteristics or attributes) and dimensions (the location of properties along a continuum or range).

The open coding technique is suited to building grounded theory. Normally the data under analysis are collected by interviewers asking questions based on responses given to previous questions. This research, however, is different because the semi-structured questions were prepared and asked. To some degree, the logic of answering the questions was anticipated. Notwithstanding, the open coding technique is suited to identifying some emerged factors and broad concepts in the conceptual framework. For example, location factor is a rather broad concept, which requires exploratory analysis.

ii) Axial coding

Axial coding refers to “the process of relating categories to their subcategories” (Strauss and Corbin, 1998:123), linking categories at the level of properties and dimensions. Subcategories “answer questions about the phenomenon such as when, where, why, who, how and with what consequence” (1998:125), hence axial coding can provide a more precise and complete explanation.

Axial coding is applicable to this research in providing the explanation concerning how a category is related to sub-categories in terms of properties and dimensions. For instance, the MNBs may have different entry motives in the host market. Different entry motives can be the categories for axial coding. Each motive is related to sub-categories to provide an explanation regarding why certain banks have certain types of entry motive.

iii) Selective coding

Selective coding is “the process of integrating and refining categories” (Strauss and Corbin, 1998:143). A grounded theorist attempts to integrate major categories to form larger theoretical themes so that the research findings take the form of theory. The way to make it all come together starts from choosing a central category. A central category represents the main theme of the research. It describes what the research is all about.

Selecting core categories is an important process in data analysis. For example, if a bank specific resource is the core category, it must be able to link to other major categories. It must appear frequently in the data both within a case and across cases with indicators pointing to the concept. It is the core category relating other categories in a logical and consistent way to explain the formation of entry strategy.

6.6.3 Data Display and Case Report

Data display is concerned with the techniques for in-depth and comparative analysis. Diagramming data helps the researcher to think more clearly and to write more

explicitly, as mentioned in Section 6.3.2. Diagrams have been defined as “visual devices that depict the relationship among concepts” (Strauss and Corbin, 1998:217). In this research, diagrams are used mainly for the analysis by groups (or quasi-typology analysis), matrix-making and flow-charting.

Grouping analysis is a classification process based on patterns, themes, or other kinds of groups of data. Because of the semi-grounded nature of this research, the analysis is not termed as typology analysis, although it has a similar logic. According to Patton (1990:393) “typologies are classification systems made up of categories that divide some aspects of the world into parts”. By this definition, the grouping analysis is at least a quasi-typology analysis in this thesis.

The matrix is adopted as a tool across case analysis. A matrix can be used to display, connect, and compare responses of banks with regard to the questions on determinants of entry strategy. For example, the rows of the matrix represent the main attributes of a particular entry decision with the columns representing the different banks involved in this research. The researcher can make comparisons to identify similarities or differences in the entry strategy of different banks.

Flow charts visualise an order of elements through time or a process. Miles and Huberman (1994:93) describe flow-charting as a network, defined as “a series of nodes with links between them”. NVivo analysis provides a tool to visualise the relationship of nodes in a flow chart. The manipulation of the flow chart creates chances to view the network relationship of nodes as a whole. This flow chart is adopted generalizing and revising the conceptual framework in the research process.

Yin (2003) provides four options to report case analysis: to present a narrative report typically for single case study; to report in multiple-case narratives by presenting each case singly; to report not in narratives but following question-and-answer format; and finally, to create chapters or sections each devoted to a separate cross-case issue.

The research questions are based on explaining the differences of the strategic entry decisions; therefore, individual case reports are not necessary. Rather, each case report was written as one comparative document. Key themes derived from the conceptual framework are adopted to construct analysis. Further explanation for the findings is based on internal factor and external factors.

6.7 Assessing the Research Methodology

6.7.1 Justifying the Research Method through the Pilot Studies

In order to enhance the research validity, it is common for the researcher to pilot the methodological design before it can be applied for the main study. The pilot study is conducted for two reasons. First, the pilot tries to examine the research method in terms of case selection, data collection and the data analysis method. Second, the pilot study data and findings become the first part of the data collected for the research. The result of the pilot study is used as much as possible for the main study.

Cases 1 and 2 are the two banks approached for the pilot studies. These cases were selected because the researcher obtained the first and full access to both of them. Each bank was considered to be very different from its case profile. The market origin of Case 1 is Hong Kong SAR. The bank has one of the largest branch networks and the longest history of entry into the market in China. The market origin of Case 2 is Germany. The bank has a small-sized local branch network and a relatively shorter time of entry in the local market than Case 1.

Also both cases were based on the reporting branch. The reporting branch is the one responsible for collecting all the information from other branches to report to the local regulators. The study of Case 1 is located in Beijing and Case 2 in Shanghai; the two locations are examined as the location of banks for the main study.

Case 1 provided specific useful settings as a pilot. The researcher was allowed to conduct an on-site study for two months in the Beijing Branch of Case 1. The research gave the opportunity to replicate the research at the Shanghai Branch. The Shanghai

Branch was established in the 1920s, and has witnessed the long-term development of the bank in China. Access to the Shanghai Branch allowed the pilot to make a comparison between the two branches which added in-depth understanding of the bank.

Case 2 provided other special settings as a pilot. The researcher was allowed to approach all the expatriates working in the bank so that the key functions were fully understood. Two of the expatriate managers had an academic research background, from which additional information for the research design was obtained.

The two pilots present contrasting strategic entry decisions in China as anticipated. Based on the pilot results, the research method is reflected and justified. The case study method has been generally confirmed. The methodology is examined in terms of case selection, data collection and data analysis as follows.

i) Assessing Case Selection

Table 6.5 shows four issues which are examined in the pilot study regarding the selection of cases for the main study; these are: the diverse case selection concern, the branch level of observation, and the number of branches for each case and the location of the fieldwork.

Table 6.5 Reflecting Case Selection Process through Pilot Study

Key Assumptions in Case Selection	Check Issues through the Pilot
diverse case selected	How were cases with diverse characteristics selected?
branch level perspective	Has the level of study been appropriately selected?
one branch for one case	Is the selection of one branch for each bank appropriate?
location of branch	Are Shanghai and Beijing the right location for branch selections?

First, the pilot studies add confidence to the assumption that it is unlikely the selected case samples have the same resource profile. Cases selected tend to add to the diverse value for the purpose of explaining and exploring the formation of entry strategy.

Second, branch level observation proves to be the appropriate level. This is because the branch has been the dominant mode of entry. In Case 1, the bank has not taken another entry mode. Therefore, it is the only approach to conduct the study. In Case 2, the bank has invested in other financial sectors in China, but in terms of commercial banking, the branch is the only platform for banking operations.

Third, one branch for one MNB has proved sufficient to examine the mechanism of formation of entry strategy against the postulated framework. In Case 1, most information is repeated and saturated when the same question was replicated from the branch in Beijing to its branch in Shanghai. This is because branches of the same MNB have followed similar control systems and marketing orientation.

Finally, both bank cases have selected either the Shanghai branch or the Beijing branch as their main reporting branch. According to managers, both locations are important areas in which the bank has set up a presence. This confirms that the location of a branch in either place for the fieldwork is considered to be appropriate.

ii) Assessing Data Collection

Table 6.6 shows four issues which are examined in the pilot studies regarding the data collection; these are: the role of secondary data, the format of questions, the standard questions for different interviewees and the sequence of questions.

Table 6. 6 Reflecting Data Collection Method through Pilot Study

Key Assumptions in Data Collection	Check Issues through the Pilot
secondary data	Has the scope of the secondary data been appropriately defined?
semi-structured questions	Is another type of questioning method needed?
standard questions	How has the standard questions adjusted to interviewees of different seniority?
flexible questions designed	How has the sequence of questioning managed with flexibility?

First, the secondary data prove to be important information sources in understanding the basic background of the parent bank. At the branch level, middle managers and local employees tend not to comment on the global strategy, therefore, the secondary data have supplemented the richness of data. The protocol of secondary data proves that the most useful information sources are the annual report, and website of the bank.

Second, given that the study is based at the branch level, the strategic issues are interpreted by individual managers from an implementation perspective. It is natural that a broad strategic-oriented question may not generate enough response if the interviews are dealing with daily operational work. Therefore, the pilot shows the importance of using probe questions such as, “Could you explain more?” or “Could you give an example?” To some degree, for the pilot cases, some grounded methods are adopted in order to deepen the understanding of the context. Some quantifiable questions are tried in the pilot, which generate more solid evidence, but it shows that while this approach may be applicable to certain cases, it is unlikely to be always applicable to the main study.

Third, standard questions proved to be applicable for people from different positions. However, people in the front line were more active in answering certain questions such as those about marketing orientation, and people in the back office were more active in providing credit and risk assessment information. Nevertheless, all the managers have cross-function experience or banking practice which requires close internal cooperation and most managers are eligible to answer questions in a standard format.

Finally, flexible questioning methods are proved to be important in the interview for several reasons. One is that of time constraints for the interview. Bank managers in the MNBs are extremely busy, so a one-hour meeting is a very precious opportunity for the researcher. Senior managers tend to answer questions with a more strategic meaning, which is accepted by researchers when the answers to other dimensions tend to repeat what has been obtained already. Therefore, to some degree the sequence and emphasis followed the preference of the interviewee with necessary guidance by the researcher for maintaining focus.

iii) Assessing Data Analysis

Table 6.7 shows four issues which are examined in the pilot studies regarding the data analysis. They are: unit of analysis, content analysis process, evidence of strategy formation, evidence of propositional relations, and triangulation of the different sources of information.

Table 6. 7 Reflecting Data Analysis Method through Pilot Study

Key Assumptions in Data Analysis	Check Issues through the Pilot
unit of analysis	Can multiple interviewees of one case be integrated?
coding technique	How has the coding system been established and extended?
induction	How has the pattern of entry strategy formation been identified?
retroduction	How has the theoretical model worked for pattern matching analysis?
triangulation	How are primary and secondary data triangulated in the analysis?

First, the unit of analysis is a mechanism governing the formation of the main strategic entry decisions identified in the literature. The interview questions attempt to capture the contextual information of the entry decisions. The pilot cases have proved the existence of such a mechanism and it is interesting to note that both cases have shown differences in certain dimensions of the decisions. The data from each interview provide additional information regarding the strategic entry decision from a different viewpoint. Therefore aggregated interview data are proved to be necessary.

Second, the coding systems were developed during the content analysis. The primary nodes were deduced from the literature. Some free nodes were identified and later added to the coding system when the concept became clear. After Cases 1 and 2, the coding system was developed. The axial coding is particularly useful in developing key concepts which have been only broadly put into the conceptual framework. A typical example is the determinants of regulatory impact. The selective coding was important to identify the sources of competitive advantage. The description of the concept was gradually developed as well.

Third, the most challenging part in the content analysis is to differentiate content for the determinants and content for the relation between determinants. This would not have been clear before the pilot was conducted. The “search by set” techniques in tabulation were found useful in order to derive evidence to support these two steps of the analysis. Finally, triangulations between the primary and secondary data are found to be important in propositional analysis and finding conclusions. For the global strategy factor, second-hand data are more important than firsthand. Also in talking about banking presence in China, second-hand data are sometimes more precise and straightforward which saves time during the interview for exploring the same information.

6.7.2 Justification of the Case Database

In gathering the secondary data, a limited amount of relevant data are available. This confirms Cho’s (1985) comments about gathering necessary data on individual banks. Some important data are simply unavailable for confidentiality reasons, and some published data are too general for any useful meaning to be extracted from them. Data regarding the bank-specific resources, the indicators for collecting the data and the availability of the data are concluded as shown in Table 6.8.

With respect to the bank-specific resource (BSR) only five dimensions of information are able to be collected across the two cases based on the indicators defined in the protocol. These dimensions are: size of the bank; local knowledge indicated by total number of branches and total years of entry into the local market; scope of the global network indicated by total number of offices and the total number of countries these offices are located. These dimensions are used to establish the resource profile of each MNB. The resource profile is analysed in Chapter 8.

Table 6. 8 Data Availability based on Indicators for the Bank-specific Resource

Resource Dimensions	Proxy and Availability of Data
1 size	size of bank capital, domestic deposits, total loans, total assets ✓
2 access to funding	size of major currency deposit x
3 global and local knowledge & experience	size of bank's foreign lending and deposits x
4 local knowledge and experience	number of years of banking operations in a particular market ✓
	scale of institutional presence e.g. number of branches ✓
5 scope of network	number of foreign offices of a bank globally ✓
	number of countries in which a bank has offices ✓
6 bank reputation/creditworthiness	bank rankings *
7 availability of skilled personnel	skilled (international banking officer)/total employee ratio x
	interest-based income/total income constituted by interested-based and non-interest based x
8 product differentiability	expenditure on marketing & product development/Operating income ratio x
9 possession of customers with international involvement	customer groups' foreign sales (or assets)/customer groups' domestic sales (or assets) x
10 advantage in risk management system	(proxy not found) *
11 possession of unique bank culture	(proxy not found) *
<i>Note:</i> 1) ✓ = data represented by the proxy is accessible; 2) x = data represented by the proxy is not accessible; 3) * = data is found no conclusive way to measure.	
<i>Source:</i> Based on Cho (1985).	

6.7.3 Criteria of Quality Assessment

There could be many reasons why the case study method may lack of rigour. To conclude some of these reasons, Miles and Huberman (1994:278) describe five criteria for realist case study research, which are also used in this research: *objectivity*,

reliability, internal validity, external validity, and utilisation. The meaning of the five criteria and their consideration throughout this study are defined below.

First, *objectivity* refers to the relative neutrality and reasonable freedom from researcher biases. The current research was planned and carried out based on the conceptual framework developed by a rigorous review of the literature. The data collection and analysis are guided by the semi-structured principle, which allows the researcher and the interviewees the freedom to consider other, alternative structures that transpired during the fieldwork.

Second, *reliability* refers to whether the process of the study is consistent and reasonably stable over time, and across researchers and methods. Particularly during the process of data collection and data analysis, the current study was entirely carried out by a single researcher. A standard interview guides the data collection. The conduct of the interview follows the same processes. Consistency across different cases and different interviewees was therefore improved.

Third, *internal validity* refers to whether the findings of the study make sense and reflect the authentic portrait of what is being studied. Different from most international business studies, the research design is set in a single industry context, which reduces the inconsistency caused by mixing different sectors together. A pilot study was also performed in order to enhance the internal validity of the whole research exercise.

Fourth, *external validity* refers to whether the conclusions of the study have any larger import or are transferable to other contexts. Case studies do not provide statistical generalization as in quantitative methods; rather they provide analytical generalization. In analytical generalisation, the researcher tries to “generalize a particular set of results to some broader theory” (Yin, 1994:36). To increase transferability, the research was carried out using multiple cases and the characteristics of each case and interviewee were described in detail.

Fifth, *utilisation* refers to the ability of the study to contribute to the body of knowledge and its application in the industry. As pointed out in the literature, using the OLI paradigm to study the formation of entry strategy requires a methodology different from the traditional approach. The research was conducted through face-to-face discussions with real actors who have vast experience and authority. Consequently, the result of this research is very likely to benefit both the research community as well as the banking industry.

6.8 Chapter Conclusions

Approaches to social science research range from the two extremes of subjective. One is a more scientific research style, and the other a more constructive style. An alternative approach is taken by this research to adopt neither style but following critical realism as an appropriate ontology. The critical realism approach is taken because it expresses a desire to identify the underlying mechanism responsible for how an independent world functions.

The choice of a philosophical framework helps to limit the risk of misinterpreting research results in order to support a predetermined point of view. In accordance with the realists' position, the logic of selecting, collecting and analysing data is neither inductive nor deductive, but in the retroductive flow. The quasi-grounded research strategy satisfies the research purpose and the ontological position of the researcher.

Not only influenced by the philosophical stance, but also by several other factors, is the choice of an appropriate research methodology and design. These factors include the format of the research questions, i.e., the 'how' and 'why'; the nature of the phenomenon under study, i.e., contemporary or historical issues; and the extent of control required over behavioural events in the research context. The overview of all these factors together determined the case study method as the most appropriate method.

According to the case selection criteria, the largest and earliest entered foreign banks from different market origins should be selected. Such criteria also satisfy the

requirement to collect rich data based on the assumption that banks with a larger actual commitment and a longer time of entry experience of the local market are more likely to have formed the pattern of their entry activities than the smaller entrants.

The rigour of the case study method is the main concern whereas each process of the replication of the case has to take several issues into consideration. The practical issues are assessed through two pilot studies. The results from the pilot confirmed the methodological design with regard to the case selection, data collection and data analysis. The justified methods are replicated in the main studies, which are reported in the following chapters.

Chapter 7 Analysis of the Strategic Entry Decisions through Cross-Case Comparisons

7.1 Introduction

This chapter draws comparisons across ten banks included in this research. The analysis aims to provide detailed evidence to answer the research question: “*Are the entry strategies of the multinational banks different in China?*”

The analysis is based mainly on interviews with 35 key bank managers representing four different functions; these are: the marketing officer, the operations officer, the risk manager, and the general manager. All the bank managers are based in the local market in China. The response of these managers, therefore, embraces both the strategic decisions assigned to them by the parent bank and the strategic implementation carried out by them in the local branch. The strategies as planned and implemented under the impact of emergent factors are examined.

The background of interviewees is referred to in the analysis in order to justify the findings in two ways: to make sure the analysis focuses on the formation of strategic entry decisions rather than on implementation details; and to make sure potential bias, as naturally embedded in the different backgrounds of the interviewees, is transparent so that the validity of the data analysis can be assessed. Given that each bank defines the role of their function managers in the local market in a different way, several criteria are used to define the job profiles of the interviewees as outlined in Table 7.1.

Table 7.1 Job Profile of the Interviewees

Job Title	Seniority	Abbreviation	Job Description
Regional Manager	S	REG	in charge of overall operations management of the bank in Asia
(Branch) General Manager	S	GM	in charge of supervising different functions of a particular branch, represents the local branch to the local authority in China
(Branch) Deputy General Manager	S	DGM	in charge of certain functions and part of management of the branch
Marketing Manager	S	MAR	in charge of achieving the marketing target of certain product lines in China
	M	MAR	in charge of starting account, account management and account services, maintain the relationship, maintain the customer portfolio and seek new customers of the branch
Operations Manager	S	COO	in charge of the overall operations of all the branches in China
	M	OPE	in charge of the overall operations including accounting, loan administration, treasury, personnel, cash, remittance, budgeting, business planning and may also include compliance management for a particular branch
Credit Account Manager	M	CRE	in charge of credit account management of a particular branch including credit assessment, administration, documentation and approval, supervision of the credit limit control according to the policy from the Parent Bank
Compliance Manager	M	LM	in charge of compliance management of a particular branch including internal control according to rules and regulations, integrating regulatory requirements into the actual specific practice
Note: Senior managers include the regional managers, country managers, branch managers as well as business line managers at the country level. Middle managers are in charge of a specific function at the branch level.			

The first criterion describes job titles of interviewees with abbreviations, such as the regional manager abbreviated as “REG”. The second criterion refers to the seniority of the interviewees, differentiating between senior managers (denoted by “S”) and middle managers (denoted by “M”). Managers working below the middle level are excluded, because their contribution is relatively less relevant to this study. The third criterion describes the range of the job responsibilities based on the job description by each interviewee.

For reasons of confidentiality, information that leads to the identity of the interviewees and their banks is not disclosed in this thesis. For simplicity, the ten banks are identified as Case 1, Case 2, Case 3, etc. or simply called “the bank” in the analysis. Each interviewee is identified in the format of a case number, interview number for the case, seniority and the abbreviation of the job title. All cases and interviewees are numbered following the sequence in which the interviews were conducted.

For example, the identification ‘1.1/M-OPE’ refers to Case 1, interviewee number 1, a middle manager responsible for the operations management. Table 7.2 lists the identifications of the ten banks, the home market origin of each bank, as well as the identification codes of the thirty-five interviewees. Identification codes are used when the responses of the interviewees are quoted directly in the analysis.

As the primary data, the interview data are frequently cited for three main purposes: i) to provide direct evidence regarding strategic decisions; ii) to indicate contextual information to explain strategic behaviour; and iii) to identify patterns through presenting the similarities and differences across cases.

The presentation of the interview data follows two approaches in this part of the analysis. To describe the *similarities* in strategic entry decisions across cases, the pattern of strategic decisions is described first and then supported by interview data organised in the table. To present the *differences* in strategic entry decisions across cases, the pattern of the strategic decision is tabulated first, and then the analysis is developed case-by-case.

Table 7. 2 Identifications of the Cases and Interviewees

Case 1 (Beijing)	Case 1 (Shanghai)	Case 2
<i>Hong Kong SAR</i>	<i>Hong Kong SAR</i>	<i>Germany</i>
1.1/M-OPE	1.5/S-DGM/OPE	2.1/S-GM
1.2/M-CRE/LM	1.6/M-LM	2.2/S-COO
1.3/S-DGM/OPE	1.7/M-CRE	2.3/M-CRE
1.4/S-DGM/MAR	1.8/S-DGM/MAR	2.4/S-MAR
Case 3	Case 4	Case 5
<i>France</i>	<i>Japan</i>	<i>Japan</i>
3.1/S-MAR	4.1/S-DGM	5.1/M-MAR
3.2/S-GM	4.2/M-OPE	5.2/S-DGM/OPE
	4.3/M-MAR	5.3/M-CRE
Case 6	Case 7	Case 8
<i>Canada</i>	<i>Germany</i>	<i>USA</i>
6.1/S-REG	7.1/S-OPE	8.1/S-MAR
6.2/M-MAR	7.2/S-MAR	8.2/M-LM
6.3/S-DGM/OPE	7.3/S-COO	
6.4/S-GM		
Case 9	Case 10	
<i>UK</i>	<i>Hong Kong SAR</i>	
9.1/S-GM	10.1/S-MAR	
9.2/S-MAR	10.2/S-GM	
9.3/S-OPE		
9.4/M-CRE		

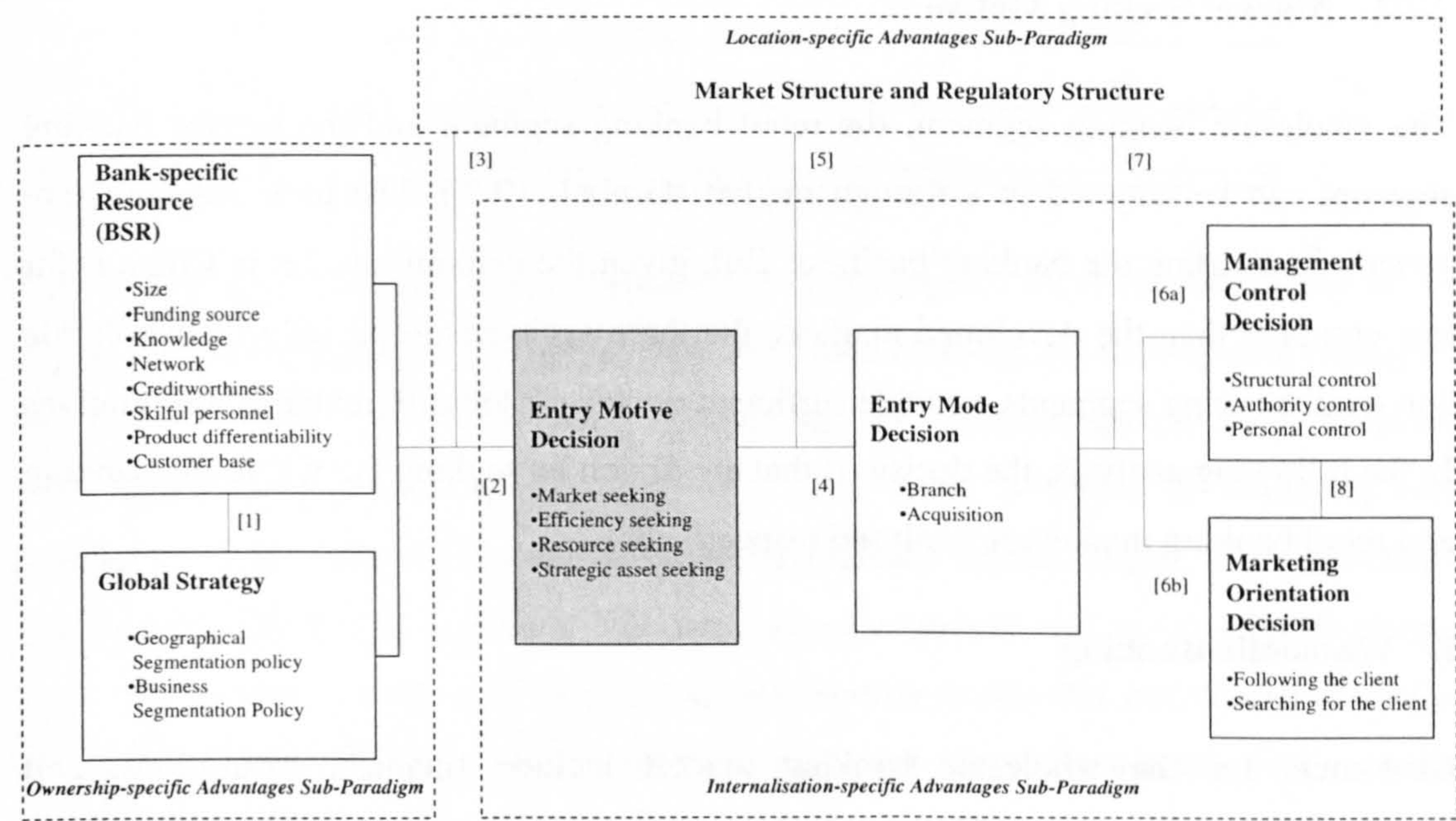
The following sections analyse strategic entry decisions in four areas according to the conceptual framework: the entry motive decision, the entry mode decision, the management control decision and the marketing orientation decision. Each area of decision is organised into three parts including the overview, the findings, and the summary.

7.2 Entry Motive Decisions

7.2.1 Entry Motive Choices

This section analyses the strategic entry motive decisions of the ten cases. This aspect of analysis is highlighted in Figure 7.1 according to the conceptual framework. Appendix D-1 provides further evidence of the analysis result from this section.

Figure 7. 1 Focus of Analysis – Entry Motive Decisions



The analysis has identified a clear and not wholly unexpected consensus on the entry motives across the ten cases. They can be summarised in two main dimensions: market seeking decisions and knowledge seeking decisions.

A market seeking motive is evidenced across all the cases. All the ten cases show that they invested in China by targeting certain segments of the market. The market segments include the wholesale banking, retail banking and service banking. Knowledge seeking occurs as a complementary motive to the market seeking motive. The data suggest that the market seeking decisions determine the characteristics of

knowledge seeking behaviours and *vice versa*, the capability of knowledge seeking impacts on the formation of market-seeking decisions.

The data reveal that despite the remarkable degree of agreement in upholding both the market seeking and the knowledge seeking motives, the consensus is not held in certain crucial and specific attributes of the entry motives. As a result of the analysis, the assumption that these cases have different entry motives is supported. The following analysis identifies and explains both the similarities and differences in the entry motive decision across the ten cases.

7.2.2 Market Seeking Motive

The wholesale banking segment, the retail banking segment and the service banking segment can be targeted in a foreign market (Grubel, 1975). The three segments are generic in dividing the banking business. But, given the banking market in China is far less complex than the developed markets, the three segments, especially the wholesale and retail banking segments, provide sufficient dimensions to differentiate entry motives. In the following analysis, the decisions that are driven by seeking the wholesale banking and retail banking market are analysed respectively.

i) Wholesale Banking

Customers for the wholesale banking market include financial institutions, and non-financial institutions. The businesses include both interest-related business, typically credit lending, and non-interest-based financial services. In this analysis, the decision for seeking the wholesale banking market is viewed based on banks searching for non-financial customers.

As shown in Table 7.3, the ten cases are driven by different degrees of determination in seeking the local corporate customers; these can be summarised in three statuses: i) having no intention to target the local corporate; ii) considering and preparing to target the local corporate; and iii) conducting business with local firms already. The evidence to demonstrate the three statuses of decision is discussed case-by-case as follows.

Table 7.3 Seeking Local Wholesale Banking Segment

	No Intention	In Consideration & Preparation	In Active Pursuit
Case 1			●
Case 2		⊙	
Case 3			●
Case 4		⊙	
Case 5		⊙	
Case 6	○		
Case 7		⊙	
Case 8			●
Case 9			●
Case 10			●

Case 6 represents the first status of decision in targeting the local corporate. The bank makes a clear decision not to expand local corporate banking. As the regional manager (6.1/S-REG) noted, *“Our core client base is not the Chinese, not the local Chinese corporate, but is the American corporate.”* The bank is active in searching for customers of the same home market origin or regional market origin. The marketing manager (6.2/M-MAR) explained, *“In fact, our sales people will try to identify North American customers here, and transfer the information to our RM (relations manager) at home to study the customer together. This customer may have already had a credit line relationship with us.”*

The second status of decisions in targeting the local corporate is represented by Cases 2, 4, 5, and 7. These banks make a similar decision in that they are considering and preparing to target the local corporates.

In Case 2, the bank is considering targeting the local corporate. As noted by the credit manager (2.3/M-CRE), *“What we are planning to do is, from next year, to slowly start doing business with the Chinese corporate...”* For the operations at the present time, the bank puts most effort into maintaining the existing clients of the same home market origin. As the marketing manager (2.4/S-MAR) explained, *“Since we don’t have so*

many people here, first of all I am trying to acquire customers or to keep them."

In Case 4, the bank is thinking of penetrating further into the local market. As the deputy general manager (4.1/S/DGM) confirmed, *"I have started thinking about how to expand the business in China...I believe one of our future development directions is the Chinese local enterprise because the Japanese corporate is limited."* The operation manager (4.2/M-OPE) explained, *"To approach Chinese local corporate, I don't think the bank has strong strategic motivation. ...Now, we start being active again, but only to the degree to target the golden names."*

In Case 5, the bank starts thinking about how to target the local corporate. As the marketing manager (5.1/M-MAR) explained, *"To do business with the Chinese corporates, we already have the basic platform."* The credit manager (5.3/M-CRE) explained, *"The Shanghai Branch and Hong Kong Branch have set up an agreement of cooperation. Because the Hong Kong Branch has better knowledge of local Chinese customers ...the other branches in China also start thinking about how to explore local Chinese corporate clients."*

In Case 7, targeting the local Chinese corporate is considered. As the operations manager (7.1/S-OPE) noted, *"(The bank's) entry into China does not necessarily only serve the subsidiaries of the multinationals but also targets the local Chinese corporate because comparatively the Chinese corporate market is much larger."* Explained further by the marketing manager (7.2/S-MAR), *"(The bank) is now having a medium-long term strategy for China. In that strategy we build up the business focus, which is quite different from our only relying on the referral clients. Now we are going to tap into the local market."*

Cases 1, 3, 8, 9 and 10 represent the third status of decisions in targeting the local corporate. These banks are aggressive in approaching the local corporate. They perceive that the potential market as promising and some of them have expanded fast.

In Case 1, serving the existing client is important, but searching new local customers is the real target. As noted by the credit manager (1.2/M-CRE/LM), *“The marketing people need to maintain both the referred customers by the parent bank and need to identify local customers as well. Most of our effort is put into identifying new customers.”* According to the deputy general manager (1.3/S-DGM/OPE), *“The self-identified customers are increasing these years.”*

In Case 3, the bank searches the local Chinese corporate clients aggressively. As the general manager (3.2/S-GM) noted, *“... we are actively rather than passively working in the market, because we are not only developing business with multinationals, but also with the Chinese financial institutions and corporates.”* The marketing manager (3.1/S-MAR) said, *“What I mean by the Chinese corporate in the past few years mainly refers to those Chinese enterprises that have invested abroad. Now, the Chinese corporate includes the local Chinese corporate, both the state-owned and the privately-owned enterprises.”*

In Case 8, tapping into the local firms is part of the strategy. The bank has aggressive expansion motives for seeking the local market in every segment to gain a leading position. The marketing manager (8.1/S-MAR) explained, *“One of the key criteria of success by which we measure ourselves is the market importance, i.e., how much market share we have with respect to the products we offer to the customer. If we were not ranked in the top three, we must know why. We need to figure out how to get there.”*

In Case 9, the local Chinese corporates are within the coverage of its overall expansion targets. As the operations manager (9.3/S-OPE) noted, *“We have different teams covering a very wide range of customers in terms of industry, location. We have a multinational team, an Asian corporate team, and an emerging market team, and small and medium enterprise teams, which have done very well in the last year’s performance. So I think we are expanding in three hundred and sixty degrees.”*

In Case 10, targeting local corporates is part of the scope of business. As noted by the general manager (10.2/S-GM), *“(The bank) is developing a complete coverage of*

banking in China ... focusing not only on corporate banking but also on consumer banking, not only on trade finance, but also project finance and working capital finance.” The bank has moved far beyond only maintaining the existing FIEs, the same manager indicated, “*(We) are ready for any opportunity available to us. That shows our appetite for the China market.*”

ii) Retail Banking

Customers for the retail banking segment are differentiated between foreign individuals and local individuals. Traditionally, foreign banks in China have targeted foreign individuals for a long time, while the local individual business, in both foreign currency and in local currency, has only been gradually opened up to foreign banks.

The data show that banks have different degrees of determinations in seeking the retail banking market, i.e., targeting the local customers in local currency business. As shown in Table 7.4, the degree of determination can be summarised in four statuses: i) having no intention of targeting retail banking; ii) considering conducting retail banking at some time in the future; iii) preparing to target retail banking now; and iv) being active in conducting retail banking business. The evidence concerning the four statuses of decisions is discussed case-by-case as follows.

Table 7.4 Seeking Local Retail Banking Segment

	No Intention	In Consideration	In Preparation	In Action
Case 1			⊙	
Case 2	○			
Case 3			⊙	
Case 4		□		
Case 5		□		
Case 6	○			
Case 7			⊙	
Case 8				●
Case 9				●
Case 10				●

Cases 2 and 6 represent the first status of decisions in targeting the retail banking market. Both banks have shown no intention of seeking out the local retail banking market.

In Case 2, the retail segment does not drive the bank to enter or expand in the local market. As the credit manager (2.3/M-CRE) noted, “*(The Bank) will never be a retail bank in China.*” As the marketing manager (2.4/S-MAR) indicated, “*From a strategic point of view if we were going for the retail business, we would have sat down to develop the strategy for China.*”

In Case 6, the general manager (6.4/S-GM) expressed the view that seeking the retail banking market is unrealistic. He explained, “*We do not do retails. With the branching in China, I don’t think you are there to invest in retail.*” The regional manager (6.1/S-REG) also noted, “*It is difficult for us to link doing retail business on a broad basis in Asia to our core strategies.*”

Cases 4 and 5 represent the second status of decision in targeting the retail banking market. Both banks expressed that retail banking could be the driving factor for seeking the market in the future, but not as the initial entry motive.

In Case 4, the bank is not motivated to seek the retail banking market for the moment, but possibly in the future. As the deputy general manager (4.1/S-DGM) noted, *“...for the moment, we focus on corporate banking. For the future, I mean in the next five or ten years, we plan to expand business in corporate banking and see the retail banking opportunities.”*

In Case 5, the bank treats retail banking and personal banking as the plan for the future. As the marketing manager (5.1/M-MAR) noted, *“... talking about overseas branches’ businesses, our focus is on the corporate side and also investment banking because both are good to serve our corporate clients. But we do not touch retail banking, not yet, maybe in the future. Conducting retail banking requires a very heavy cost, especially the initial costs.”*

Cases 1, 3 and 7 represent the third status of decision in targeting the retail banking market. These banks are preparing to conduct retail banking for the local individuals. They are preparing rather than taking action because they are constrained mainly by a lack of knowledge in the segment.

In Case 1, the bank is preparing to target local individuals for the retail business. As the deputy general manager (1.3/S-DGM/OPE) noted, *“In principle, we want to target all the customers.”* He also said *“For the moment, corporate banking is still the main business because we are the foreign banks. But we are preparing for expansion into retail banking in the future.”*

In Case 3, the bank is driven to conduct retail banking with gradual preparation. As the marketing manager (3.1/S-MAR) noted, *“In terms of the retail banking product, my understanding is that we are not that aggressive. This relates to resources and strategy.”* The general manager (3.2/S-GM) explained the preparation needed to conduct retail banking when mentioning that the local strategic partner actually *“...helps (the bank) to understand better how retail banking works in China.”*

In Case 7, the retail banking market is pursued but only in preparation. As the country operations officer (7.3/S-COO) noted, *“For future development, we will focus on both, on corporate banking for sure. It is also private banking because the market is just about to develop. We will also develop retail banking just for the man in the street.”*

Finally, the last status of decision in targeting the retail banking market is found in Cases 8, 9, and 10. These banks have treated the retail-banking market as one of main businesses in the local market and put the idea into action.

In Case 8, the bank is seeking every market within a broader scope of segment. In fact, a similar aggressive approach has been taken in many other markets. As the marketing manager (8.1/S-MAR) noted, *“As you may know, (the bank) globally has business lines in wealth management, corporate investment banking, private banking etc. For each business line, we have a certain level of operation in China.”*

In Case 9, the bank plays a full part in every segment. As the operations manager (9.3/S-OPE) commented, *“(The bank) will adopt an approach on both sides to working on both retail and wholesale banking in China. The bank has expanded very quickly for the past one or two years. Especially in consumer banking, the team/headcounts people expand very quickly. The business expands very quickly.”*

In Case 10, seeking the retail banking market is evidently the entry motive of the bank. The general manager (10.2/S-GM) explained, *“The primary reason for which (the bank) targets retail banking is the huge potential of the China market particularly for retail banking because the population and the national economy of China is taking off.”*

7.2.3 Knowledge Seeking Motive

The knowledge seeking motive refers to banks which are driven to enter and expand in a new market for the purpose of seeking a particular intangible resource – information. The knowledge-seeking motive is documented in Dunning (1993), showing that firms make foreign direct investment in order to seek resources, which consist of technological capabilities, management and marketing expertise, as well as

organisational skills. The analysis of the knowledge seeking motive indicates why banks are driven to seek knowledge, concerning both the market and regulation, through setting up a physical presence.

Specifically, the findings related to the knowledge-seeking motive can be summarised in three main dimensions: i) seeking local market knowledge is strategically important; ii) seeking regulatory knowledge is particularly crucial; and iii) physical presence is necessary for knowledge seeking. As a result of the analysis, knowledge seeking has proved to be one of the key entry motive decisions, and the ten cases behave differently in the above-mentioned three regards.

i) Seeking Local Knowledge is Important

The first finding indicates that local knowledge is strategically important for each case. The local market knowledge is viewed from four areas with regard to: customers, products, suppliers, and specific knowledge for practice. The data suggest that most cases view local knowledge as a crucial resource. Without local knowledge, risk increases and banks have difficulties in localising their services.

A detailed view of the responses of bank managers has found that each case may place a slightly different emphasis on the importance of specific aspects of local market knowledge. A pattern of knowledge-seeking behaviour emerges. As indicated by Table 7.5, banks may have up to five different types of knowledge-seeking decisions. Evidence to support the pattern which emerges is discussed as follows.

Table 7.5 The Knowledge Seeking Motive – Market Information

Different Dimensions of Local Market Knowledge				
	Customers	Products	Competitors	Practice
Case 1	■	■	■	■
Case 2	□	□	▣	□
Case 3	■	■	□	■
Case 4	■	■	▣	■
Case 5	■	■	▣	■
Case 6	□	□	▣	□
Case 7	■	■	□	■
Case 8	■	■	□	□
Case 9	■	■	□	■
Case 10	■	■	□	□

Note:
□ = local knowledge in that aspect is not mentioned as important;
▣ = local knowledge in that aspect is addressed as important indirectly;
■ = local knowledge in that aspect is addressed as important directly.

Cases 2 and 6 represent the first type of decision regarding the knowledge-seeking motive. Both banks do not seem to regard seeking the local market knowledge as a crucial motive for entry and expansion. Both banks put some effort into seeking information about their competitors in the local market.

In Case 2, the bank bases its knowledge on its existing customers. As the chief operations officer (2.2/S-COO) said, *“Market knowledge (of the bank) focuses on Germany. We know more about our customers so that we can assess the risk more accurately.”* Regarding local knowledge, the same manager noted, *“...one part of the market knowledge is about the competitors, which is also not so difficult to know because all the foreign bank people know each other...”*

In Case 6, the bank does not address the importance of obtaining information about the local market. The product innovation is not closely related to the local market knowledge. As the regional manager (6.1/S-REG) noted, *“Generally this is a very conservative bank.*

It is not common that the (parent bank) pushes us to innovate. Normally we will feed back our idea to ask what we can do and what support we can get. This is not a highly innovative market.” As the general manager (6.4/S-GM) mentioned, “...We are not leading the market, rather we are following others...to be a leader is very expensive.”

Cases 4 and 5 represent the second type of decision regarding the knowledge-seeking motive. For these two banks, knowledge concerning customers, products, and practices are important. Knowledge regarding the competitors is important but not as much as the other three aspects of knowledge.

In Case 4, the bank selects customers based on the information they possess. As the operations manager (4.2/M-OPE) addressed, *“No matter how competition changes, for the long term, we target the good names. We won’t target the SMEs (small and medium enterprises) because we don’t understand them.”* The product design is based on local knowledge. The deputy general manager (4.1/S-DGM) explained, *“We have product development people based in Shanghai. Those people are in charge of the corporate product development in China for different branches.”* In terms of knowing the competitors, the operations manager (4.2/M-OPE) explained, *“Sometimes we rely on consultancy companies to know about our competitors. In general, it is not that difficult to collect information in this regard.”* Knowledge in practice is more important. As the operations manager (4.2/M-OPE) noted, *“The most difficult part is the specific business knowledge.”*

In Case 5, knowledge of local customers suggests why certain customers are targeted. The credit manager (5.3/M-CRE) said, *“In dealing with non-Japanese clients, the problem is that it is difficult to get to know the real situation of the customers. Even for a listed Chinese company with public information, we still could not understand the overall situation of the company.”* The information from the customer is used for the product design. As the marketing manager (5.1/M-MAR) pointed out, *“... If any marketing staff hears about a new request from the customer, he raises the question and we discuss...”* Knowing competitors is not regarded as very challenging, the deputy general (5.2/S-DGM/OPE) manager noted, *“About communication with other*

competitors, we have communication when we are not sure about certain regulations, or whether any conduct is actually appropriate.” Details in operation are important. The operations manager (5.2/S-DGM/OPE) suggested, *“Working in China, individual staff in operations need to be very careful and efficient.”*

Cases 3, 7 and 9 represent the third type of decision regarding the knowledge-seeking motive. These banks regard knowledge in all the four areas as important, except for knowledge regarding competitors.

In Case 3, the bank puts effort into acquiring and assessing information on local customers. As the general manager (3.1/S-GM) noted, *“For pure local Chinese enterprises, you have to spend lots of time in due diligence with the local corporate.”* With the information about the customer, the service is localised. As the marketing manager (3.1/S-MAR) explained, *“In order to expand the market and to find more customers, we have to be very active in offering flexible services.”* Knowledge for detailed practice is crucial. The general manager (3.1/S-GM) explained further, *“We have lots of macro economists. What is more difficult is to get micro figures and local figures. Local data suggest that the local economy of specific cities is more difficult to obtain.”*

In Case 7, to acquire customer knowledge is both important and challenging. Noted by the chief operations officer (3.3/S-COO), *“We absolutely target the local corporate; we see that is the potential. But it is true that to acquire quality information is difficult.”* Because of the limited information on the customer, *“The only thing we may try is perhaps the service or the way of pricing in order to be more competitive”*. Knowledge in detailed practice is important. The same manager reflected, *“China is a very complex environment that you really need to understand very thoroughly before you can implement certain structures and strategies.”*

In Case 9, the bank is active in getting to know the customer and know what products or services are required in the local market. As the general manager (9.1/S-GM) noted, *“What a local branch needs to do is to provide the knowledge and to give the feedback*

and advice to the parent bank. To say, for example, we really want this product but we need to modify it in order to penetrate the China market.” The detail of practice is important. As the general manager (9.1/S-GM) noted, *“I really want people with a good knowledge of operations so that they do not make mistakes.... We do hope that we have a whole batch of people who really stay in the market to know what exactly it is.”*

Cases 8 and 10 represent the fourth type of decision regarding the knowledge-seeking motive. For these banks, knowledge in detailed practice and knowledge regarding the competitors seem to be less important than knowledge regarding customers and products.

In Case 8, the bank is active in obtaining information on customers and products. The bank relies on local information to design the product and service. As the marketing manager (8.1/S-MAR) noted, *“We have a local Chinese product team which focuses primarily on local product development. So we can, on the business side, raise customer demand by mentioning it, prioritising it and then the product team will start doing it.”*

In Case 10, local information regarding customer and product are crucial. As the marketing manager (10.1/S-MAR) noted, *“... the key challenge for us in the local market is to have customer information or due diligence information. Sometimes you cannot get good enough channels to get the information, which is something you have to be very careful with.”* Products and services are designed based on the local market. The same manager explained, *“In China we do our own product development. We have dedicated resources for product development in China.”*

The fifth type of decision of the knowledge-seeking motive is represented by Case 1, which regards knowledge in all aspects for the local market as important. Such a response reflects the aggressiveness of the bank in the market.

In Case 1, the operations manager (1.1/M-OPE) noted, *“To develop the business, we need to have information about the customer, otherwise we never touch those customers.”* The marketing manager (1.4/S-DGM/MAR) highlighted that knowledge of

local market has enabled the bank to be competitive in certain products. He said, “*With the local knowledge, we have a strategy of targeting the property industry that those European banks and American banks won’t easily get involved in.*” Detailed operational knowledge is also accumulated. As the credit manager noted, “*...the Branch has more detailed, operational information that the Parent may not have.*”

ii) Seeking Regulatory Knowledge is Crucial

The second finding shows that seeking regulatory information is crucially important for each case. As summarised in Table 7.6, banks are facing regulatory pressure in two dimensions. All the cases expressed the pressure that they are under the pressure to understand the local regulation in order to respond to the coercive rules and regulations. Also, all the cases show they are under pressure to keep their bank updated with changing regulatory information. The capability that banks handle both pressures is partially reflected in the data. The differences in this aspect are discussed further in Chapter 8.

iii) Physical Presence is Necessary for Knowledge Seeking

The third finding shows both market knowledge and regulatory knowledge can only be obtained through the presence of the bank in the local market. The analysis of the knowledge flow between the Parent and the Branch, as shown in Figure 7.2, suggests a two-way flow of communication in seeking the knowledge. Knowledge flows from the local branch network to the parent bank and *vice versa*.

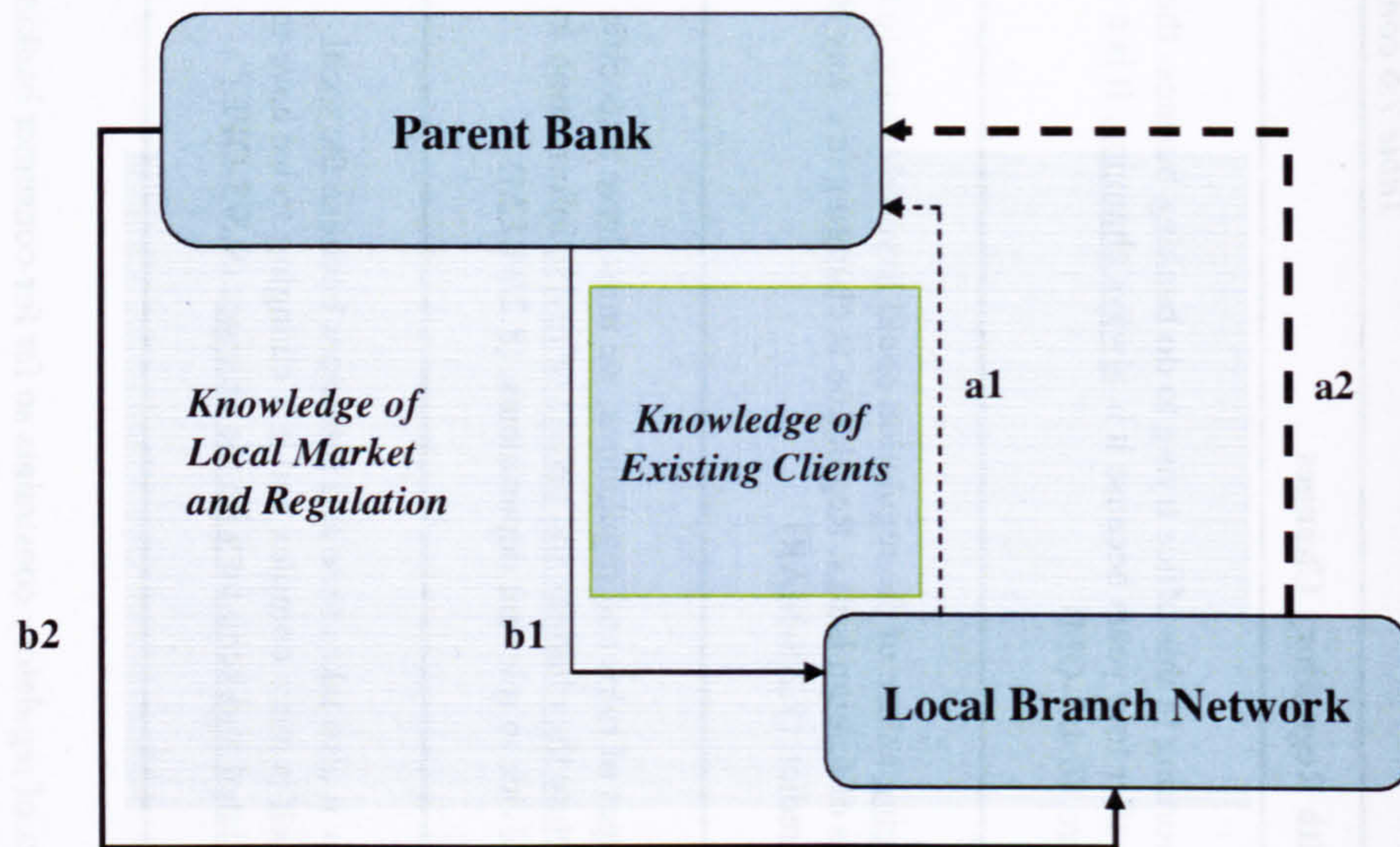
Table 7.6 The Knowledge Seeking Motive – Regulation Information

	Understanding Regulations	Updating with Regulatory Changes
Case 1	<p>(One) main task is to collect and <u>understand</u> the rules and regulations in the local market.(1.6/M-LM)</p> <p>The knowledge from these markets, however, <u>cannot be applied</u> to this market in a simple way because the regulations are different. As a result the knowledge might not be of any direct reference. (1.8/S-DGM/MAR)</p>	<p>The challenge in the compliance is that the regulations are <u>changing</u> all the time.(1.6/M-LM)</p> <p>The marketing policy is adjusted for two reasons. One is the <u>change</u> of regulation.(1.8/S-DGM/MAR)</p>
Case 2	(We) have to know <u>what is possible</u> in China, the regulations. (2.2/S-COO)	They are driving us crazy. <u>Ever week SAFE produces a new challenge.</u> We have to understand what they want, to comply with what they want.(2.3/M-CRE)
Case 3	Most of our efforts were to put into maintaining government relationships, <u>knowing</u> the rules and regulations... (3.1/S-MAR)	One of most challenging things is the regulation, which is very complex. To do business in this market, you have to <u>follow very close</u> to regulations. The role of the compliance manager is very important. (3.2/S-GM)
Case 4	The compliance management directly relates to the daily business. We need to know what is allowed by regulation, and how to <u>understand</u> the regulations. (4.2/M-OPE)	We have to <u>accumulate and manage</u> the knowledge very well including the three basic laws in the banking industry, the rules and regulations.(4.2/M-OPE)
Case 5	We need to <u>know</u> more to adjust to the local market. The Parent Bank people do not have the a precise understanding of local regulations. (5.1/M-MAR)	... these rules and regulations are <u>always changing</u> . When regulation changes, the first thing is to comply with it and find solutions to our business. (5.3/M-CRE)

Table 7.6 continues

	Understanding Regulations	Updating with Regulatory Changes
Case 6	We are restricted to deliver those products. China is developing quickly but still there is a gap. So we have to <u>understand</u> what we can do and what we cannot do.(6.4/S-GM)	For people working in this office trying to do banking business they have no clue after four years because it is <u>always changing</u> . It is a very skilful job here. (6.4/S-GM)
Case 7	... because of regulations, a bank may lack <u>knowledge</u> about both the financial industry and the enterprise.(7.2/S-OPE)	But the <u>changing</u> nature of the regulation could have relevance to the growth of lots of foreign banks. Regulation is changing in a way that you cannot predict. (7.2/S-MAR)
Case 8	We have to <u>understand</u> all the changes. If one department didn't update policies promptly, or didn't understand the policies appropriately, we communicate with the operation managers to find the solution.(8.2/M-LM)	For any changes of rules and regulations, we must have a specific person to <u>capture the changes and update</u> or revise information in the system and advice to relevant departments. (8.2/M-LM)
Case 9	There are many regulations on the customers that the banks are going to be <u>dealing with</u> , on the locations the cities that are allowed to expand, on the business we have limited cities in China where we can open our branches, we have cities in China we can do local currency business.(9.3/S-OPE)	But you know it also takes time and resources because the local regulation itself is more complex and it is changing so we have to <u>keep ourselves updated and keep up with the changes</u> .(9.3/S-OPE)
Case 10	For the operation people they have to be able to professionally implement regulations from CBRC, SAFE etc. to <u>make sure the operation is in compliance</u> . Operation people and compliance people are the mainstream staff we require to run our business.(10.2/S-GM)	There are lots of regulatory constraints so far for consumer banking...It is still quite <u>regulation driven</u> .(10.2/S-GM)

Figure 7.2 The Knowledge Seeking Motive – Knowledge Flow and Knowledge Base



Two main knowledge bases are identified which differentiate the focus of the knowledge seeking behaviour. One knowledge base focuses on the existing clients. Information of the existing customers flows from the local branch network to the parent bank (denoted as “a1”). Correspondingly, the supporting information and policy guidance flows from the parent bank to the local branch network (denoted as ‘b1’).

Another knowledge base focuses on the local market and regulation. The information regarding the local market knowledge and regulation flows from the local branch network to the parent bank (denoted as “a2”). In relation, the policy guidance to control the local operation flows from the parent bank to the local branch network (denoted as ‘b2’).

The two areas of knowledge bases, i.e., the knowledge of the existing clients, and the knowledge of local market and regulations, form the whole knowledge base accumulated by each case. The data show the knowledge-seeking behaviour in the loop between a1 and b1 enables banks to better serve the existing clients, while the knowledge-seeking behaviour in the loop between a2 and b2 enables banks to search for new clients.

For both knowledge bases, the data suggest setting up a local presence is necessary. As shown in Table 7.7, the knowledge flow loop of a2 and b2 is focused. Evidence suggests that banks have to set up a local presence in order to seek local knowledge. In Cases 1, 2, 9 and 10, the local branch network behaves as ‘information collector or provider or acquirer’. In Cases 3, 5, and 6, the local branch network acts as the ‘educator’ to the parent bank to enable people in the parent bank to understand the local market. In Cases 4, 7 and 8, the local branch network is learning about the Chinese market together with the parent bank. In any of the three groups, to have a physical presence in the local market is the prerequisite for seeking knowledge.

Table 7. 7 Role of the Local Branch and the Knowledge Seeking Motive

	a2 & b2 Relation	Role of the Local Branch
Case 1	...the Parent Bank relies on us to <u>provide</u> information about this market. We tell the Parent Bank what is happening here and what the market demand is.(1.1/M-OPE); there are two ways of information transfer because both the Parent Bank and the branch possess some information.(1.2/M-CRE)	PROVIDER
Case 2	Regarding China it is the other way around, the branch <u>provides</u> most of the knowledge about China to the Group.(2.2/S-COO)	PROVIDER
Case 3	Very often we need to <u>educate</u> our boss on how to view the risk and business in China. So the information communication is in <u>two directions</u> . How to communicate with the Parent Bank is very important.(3.1/S-MAR)	EDUCATOR
Case 4	We do not have research units in the Parent Bank about the China market. In fact we are in charge of <u>studying</u> the local market.(4.2/M-OPE)	LEARNER
Case 5	The credit people are trying to do the same as they did in Japan. Sometimes you will see the idea they follow is not based on the market practice. We also need to <u>educate</u> , or teach them to understand the market.(5.1/M-MAR)	EDUCATOR

Table 7.7 continues

	a2 & b2 Relation	Role of the Local Branch
Case 6	Most of the knowledge of the China market will be <u>generated</u> from our presence here; People from North America tend to view it from the North America standpoint. They want the financial statement to look a certain way... We have done a lot of <u>education</u> (to them).(6.1/S-REG)	EDUCATOR
Case 7	Like many other foreign banks, the purpose of making investment in the local bank is to <u>make use</u> of the existing network and resources of local banks in addition to the usage of their knowledge of the market;(7.1/S-OPE) You have to be sensitive. You have to prepare well. That job can only be done by local staff.(7.2/S-MAR); you cannot become a Chinese bank. You have to have the link and that connection to the head office is extremely important.(7.3/S-COO)	USER; SENSOR
Case 8	(The bank) has very complex cases and when operation officers are involved in the grey area, they ask my opinion ...In this way, I got more experience <u>from real practice</u> .(8.2/M-LM)	LEARNER
Case 9	What a local branch needs to do is to <u>provide</u> the knowledge and to give feedback and advice to the Parent Bank ...(9.1/S-GM)	PROVIDER
Case 10	...there is a question if other foreign banks compete with us for the customers, we may feel there is not enough <u>information for the decision</u> , we need to balance between gaining the customer and taking the risk.(10.1/S-MAR)	ACQUIRER

7.2.4 Summary

The analysis in this section focuses on the formation of the strategic entry motive decisions. The data show the MNB in the banking market in China has two main entry motives: the market seeking motive and the knowledge-seeking motive. As summarised in Table 7.8, the data demonstrate that banks do not make the same decisions along the specific dimensions of each entry motive decision.

Table 7. 8 Implications of Different Strategic Entry Motive Decisions

Entry Motives	Differences in Specific Dimensions	Implications of the Differences
Market Seeking Motive	Banks make different decisions regarding whether the local corporate banking is targeted or not.	Decisions on segment targets dramatically differentiate banks. Because the operation of retail banking is different from that of wholesale banking, bank may require different operational platform, i.e. the entry mode.
	Banks make different decisions regarding whether the local retail banking is targeted or not.	
Knowledge Seeking Motive	Information about customers, competitors, products and practice are given a slightly different emphasis by the banks.	Banks may have different knowledge base for the local market
	Bank may have different ability to handle the pressure to understand and update the regulatory knowledge.	Because of the reliance of the Parent Bank on the knowledge sought by the Local Branch Network, the control of local branch by the Parent Bank may change as the local branch accumulates more local knowledge.
	To seek both market and regulatory knowledge, banks need to set up the physical presence in the local market.	

First, regarding the market seeking motive, the ten cases made different decisions in terms of market segment decisions in the local market. Banks are different in their decisions as to whether the local corporate banking market should be targeted or not. Banks are also different in their decisions as to whether the local retail-banking segment should be targeted or not. The differences in these two dimensions dramatically differentiate the ten cases.

Since retail banking relies on a different operational approach from corporate banking, the different decisions imply banks may require different modes of operation, which will be analysed in Section 7.3.

Second, all cases are driven to enter and expand in the local market for seeking the local market and regulatory knowledge. The data suggest banks are slightly different in searching for particular areas of knowledge. Such differences can be attributed to the differences in their entry motives and their existing knowledge base. All cases have shown they face pressure in understanding and updating local regulatory information. Presumably, the pressure is different across banks if they have different abilities to seek out the regulatory information.

The mutual reliance on the knowledge between the parent bank and the local branch may change as the structure of knowledge changes. The more the new local market is sought, the more the parent bank relies on the local branch to provide information in order to make policy. By contrast, the more the existing market is addressed, the more the local branch relies on the parent bank to support information on existing clients.

Third, the data show that market seeking and knowledge seeking are closely related and impact on each other. Market-seeking decisions influence the focus of knowledge-seeking behaviour; meanwhile, the development of knowledge seeking influences market-seeking decisions. Unlike the market seeking motive, which is explicitly expressed by the bank managers, the knowledge-seeking motive is only indirectly but overwhelmingly expressed as a prerequisite for seeking the local market.

The two entry motives fall into the generic FDI motives in Dunning (1993). In particular, the knowledge seeking motive can be categorised as the resource seeking motive (Dunning, 1993). The finding of the entry motive decisions of the MNB implies motives behind the strategic asset seeking decision, which does occur in these cases, but only in the course of post-entry development, not as a motive for initial entry. Banks undertake strategic asset seeking as a means for knowledge seeking and market seeking, rather than as a separate motive.

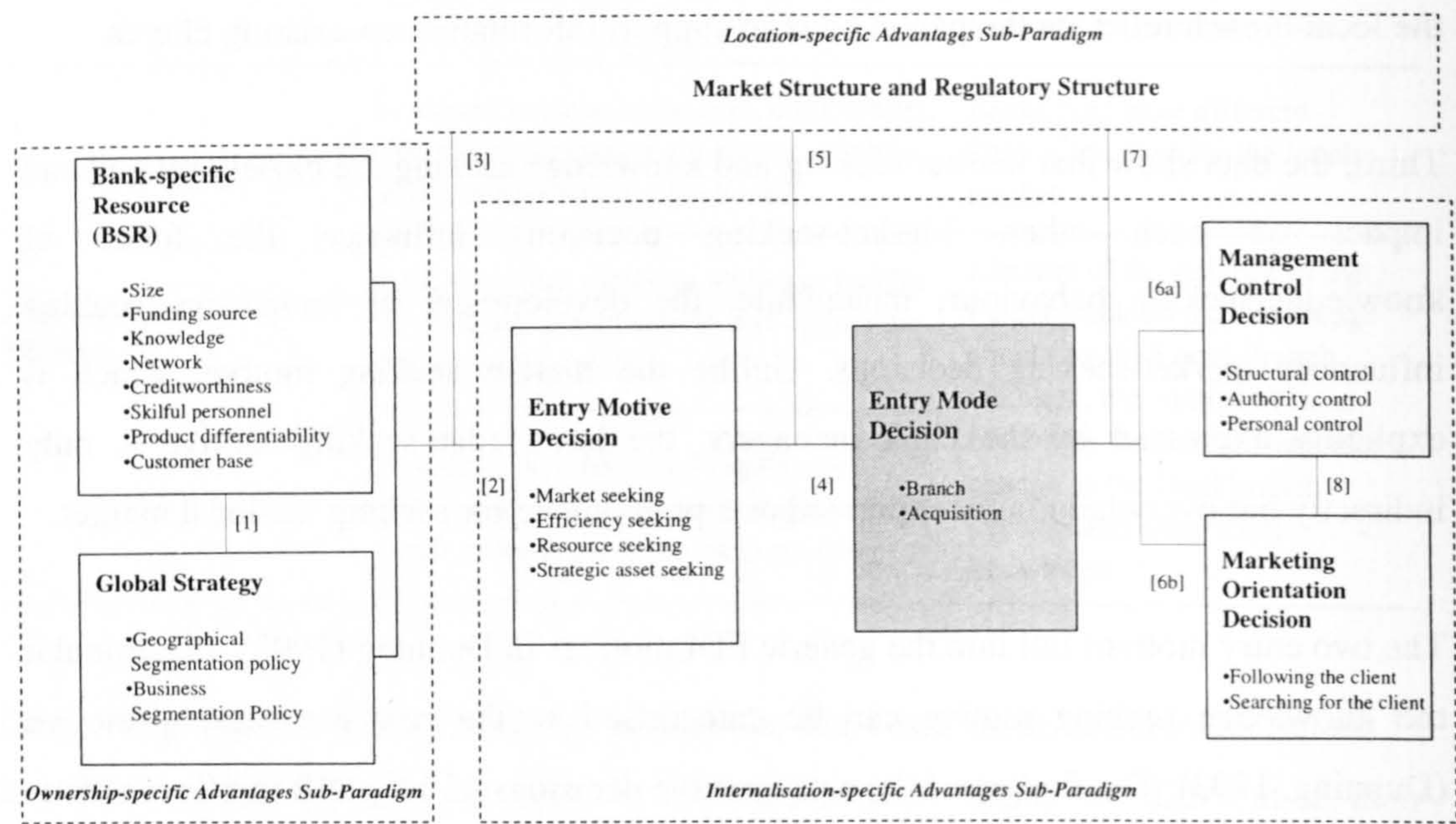
Finally, the findings confirm the entry motive in the banking market in China does not necessarily and completely comply with the literature predicted for traditional multinational enterprises. For example, the motive of efficiency seeking is not significant. The motive of strategic asset seeking is not viewed as the entry motive according to the response of the bank manager; rather it is more related to the entry mode decision, which will be discussed in Section 7.3.

7.3 Entry Mode Decisions

7.3.1 Entry Mode Choices

This section analyses the strategic entry mode decisions of the ten cases. This focus of analysis is highlighted in Figure 7.3 according to the conceptual framework. Appendix D-2 provides further evidence of the analysis result from this section.

Figure 7.3 Focus of Analysis – Entry Mode Decisions



The analysis focuses on the formation of the branch mode decisions regarding how banks decide to set up the platform to conduct business through this main entry mode. To corroborate the branch mode decisions, the decisions to make equity investment in

local Chinese banks are also examined.

Although the two entry modes are distinctly different, both have a common concern with regard to the branch network for conducting business in China. By choosing the branch entry mode as the main vehicle of entry, banks adopt an incremental approach or “organic” approach to conducting business. Alternatively, through acquisition or making equity investment into the local banks, banks can quickly make use of the existing network of strategic partners. The relationship of decision on both entry mode selections is explored in the analysis.

The data show that although all cases have selected the branch entry mode, they have made different decisions in terms of the location, scale, and timing of the branch expansion. In the equity investment entry mode, the ten cases have made different decisions as well. As a result of the analysis, the conclusion that these cases have made different entry mode decisions is supported. The following analysis tries to identify and explain how banks are both similar and different in the two main entry mode decisions.

7.3.2 Branch Expansion Decisions

The adoption of branch entry mode suggests the “organic” approach of expansion, which means branches are expanded through relying on the resources of the parent bank. The data show banks build up their local branch network based on decisions in three main dimensions: location, scale and speed.

As described in Chapter 2, under the regulatory conditions in China, decisions for establishing branches are not straightforward. First, the location choice is limited. An incremental opening policy only allows several cities to be opened for foreign banking each year. Banks cannot decide the location, as they would like to. Second, the scale of the branch network is limited. A foreign bank can only open one branch in each opened city. Third, the speed of branch expansion is limited. A branch can be established only when a representative office is qualified and proved to be suitable for upgrade into a branch. A lead-time of two or three years has to be given to the bank in a particular targeted location to qualify to apply for a branch licence.

Since only one branch is allowed to be opened in one opened city, the scale of the branch network also indicates the size of geographical scope of the bank in China. There is no restriction on branches taking business from the other opened areas, which may explain why many banks have only one branch operating in China.

Under the above conditions, the branching decision is strategically important as each establishment of a branch means further resources are then committed to the market. As summarised in Tables 7.9, 7.10, 7.11 and 7.12, the data show that the ten cases made different decisions to build up the local branch in terms of the choices of location, scale, and speed of network expansion.

As shown in Table 7.9, in terms of the geographical scope of the branches, two general principles are followed by the cases. One group of banks followed a less selective approach. Specifically, Cases 1, 8, 9 and 10 decided on the branch location wherever it was permitted. Cases 4 and 5 decided always to locate branches close to the clients. The other group of banks followed a more selective approach. Specifically, Cases 3 and 7 decided to locate local branches only where it was necessary. Cases 2 and 6 limited the locations to certain key cities.

Table 7.9 Branching Decisions – Location

	Different Principles			
	Large Geographical Scope		Small Geographical Scope	
	Aggressive	Less Aggressive	Ambitious	Less Ambitious
Case 1	✓			
Case 2				✓
Case 3			✓	
Case 4		✓		
Case 5		✓		
Case 6			✓	
Case 7			✓	
Case 8	✓			
Case 9	✓			
Case 10	✓			

In terms of the location selection, two criteria were considered by all the cases in choosing the specific branch locations. One is the local economic condition and the other is the convenience to obtain regulatory information. As summarised in Table 7.10, the data show more and more emphasis has been given to the capital city, Beijing, for setting up a branch.

Compared with Shenzhen and Shanghai, Beijing is less commercialised and opened later. However, the city is where most regulators and financial institutions have their headquarters. Banks wish to have a presence in order to obtain more concrete and prompt information on regulations. For the banks with wider geographical location, such as Cases 8, 9 and 10, the importance of setting up a branch in Beijing seems to be less addressed.

Table 7.10 Branching Decisions – Seeking Regulation Information

	Concern of Local Economic Conditions	Concern of Obtaining Regulatory Information
Case 1	Each branch is in a specific local environment and business environment. Shanghai is more open with all types of enterprises. Those products that are suited to us might not be suitable to the other branches.(1.8/S-DGM/MAR)	Although Shanghai branch has been long established, the bank decides to set Beijing Branch as the main reporting branch. Personally I believe this is because the location of Beijing Branch can help the bank to better communicate and sometimes to clarify the regulations with the regulator in Beijing.(1.5/S-DGM/MAR)
Case 2	Actually German investment in China is concentrated more in Shanghai including the Guangdong and Hong Kong area. (2.2/S-COO)	Beijing Branch is politically important because it is close to the government authority.(2.2/S-COO)
Case 3	Beijing area is full of governmental entities different from the business environment of Shanghai or Guangzhou...Shanghai, for example has wider choices for the customers. (3.1/S-MAR)	Today, Beijing is a very important window to promote our business. In the reporting line, the corporate business should be reporting to our Beijing branch.(3.1/S-MAR)
Case 4	Shanghai has a more commercial environment while Beijing Branch has more political concern. (4.2/M-OPE)	Beijing branch either provides information or promotes the decision. Sometimes the Beijing branch initiates the idea and is involved in the implementation.(4.2/M-OPE)
Case 5	But for the business, the market is relatively small. While we are opening branches in other areas not in Beijing, we try to dominate those areas and to have a very profitable business. (5.1/M-MAR)	Beijing was not the economic area but a political area. Actually for bank business, the market is not so big there. But most of the foreign banks opened a Beijing branch because Beijing is the capital they should have a branch in the city. It is very good in terms of communication with the head office in PBOC. Our next target is to open the Beijing Branch.(5.1/M-MAR)

Table 7.10 continues

	Concern of Local Economic Conditions	Concern of Obtaining Regulatory Information
Case 6	But I can see the bank has put in enough commitment. For example we have two branches so far and there will be one branch in Shanghai.(6.3/S-DGM/OPE)	We have a national compliance officer in Beijing. That national compliance officer is more concerned with Chinese regulation...(6.1/S-REG)
Case 7	Now enterprises have shifted to locate more in northern China. Typically there are many financial central areas as represented by Shanghai including some enterprises which prefer to locate in the Yangzi River Delta. (7.1/S-OPE)	Some multinationals would prefer to locate their head office in Beijing. Some investment banks also locate in Beijing. That is why (the bank) opened branches in Beijing. (7.1/S-OPE)
Case 8	We have more people in Beijing. Beijing is the real headquartes for financial institutions because most financial institutions have their headquarters there. (8.1/S-MAR)	
Case 9	Here in China our major business is in Shanghai, Shenzhen and Beijing.(9.4/M-CRE)	
Case 10	So (the bank's) brand is not only known internationally but its brand is known across China especially in major cities like Shanghai, Beijing, Guangzhou and Shenzhen. (10.1/S-MAR)	

In terms of the scale of branch expansion, which is represented by the number of the branches in this analysis, two general types of decision are identified. As shown in Table 7.11, Cases 1, 4, 5, 8, 9, and 10 represent a group of banks that wish to set up a relatively large scale of branch network. Within this group, Cases 1, 8, 9 and 10 are more aggressive than Cases 4 and 5. By contrast, Cases 2, 3, 6 and 7 represent another group of banks wishing to limit the network scale. Within this group, Case 2 is less ambitious in branch expansion than Cases 3, 6 and 7.

Table 7. 11 Branching Decisions – Scale

	Different Principles			
	Large Scale		Small Scale	
	Aggressive	Less Aggressive	Ambitious	Less Ambitious
Case 1	✓			
Case 2				✓
Case 3			✓	
Case 4		✓		
Case 5		✓		
Case 6			✓	
Case 7			✓	
Case 8	✓			
Case 9	✓			
Case 10	✓			

In terms of the speed of branch expansion, two general principles to make the decisions are identified. As shown in Table 7.12, Cases 1, 4, 5, 8, 9 and 10 represent one group of banks that are following the aggressive speed of expansion. Within this group, Cases 1, 8, 9 and 10 have never stopped the expansion of the branch network. In comparison, Cases 4 and 5 are less aggressive. By contrast, Cases 2, 3, 6 and 7 represent the conservative way of expansion. Within this group, Cases 2 and 6 are very conservative while Cases 3 and 7 are less conservative.

Table 7. 12 Branching Decisions – Speed

	Different Principles			
	Aggressive		Conservative	
	Very Agreessive	Less Aggressive	Less Conservative	Very Conservative
Case 1	✓			
Case 2				✓
Case 3			✓	
Case 4		✓		
Case 5		✓		
Case 6				✓
Case 7			✓	
Case 8	✓			
Case 9	✓			
Case 10	✓			

An integrated view of banks’ choices in terms of decisions in the choice of location, scale and speed shows four patterns of decision among the ten cases. The emerged pattern of branching decisions is discussed as follows.

Cases 1, 8, 9 and 10, represent the first pattern of decision. These banks are less selective in choosing the location of the branch. They prefer to develop a larger scale of local branch network. They have been developing more aggressively over years.

In Case 1, the bank keeps expanding branches for a wider geographical scope. As noted by the deputy general manager (1.5/S-DGM/OPE), *“(the bank) is not only one of the earliest entrants in the China market, but also a bank which expanded quickly. We are expanding our branches through upgrading the representative offices in different cities as soon as possible.”* This was addressed further by the same manager: *“Even during the financial crisis in Asia when many investors hesitated about making investment in China, (the bank) didn’t stop implementing the branching strategy – the bank keeps applying to open branches.* The manager concluded that, *“(The bank) is quite a successful bank in Mainland China with its fast and stable expansion.”*

In Case 8, the bank attempts to locate different places with an increased number of branches and accelerated expansion. As the marketing manager (8.1/S-MAR) described, *"We have six branches in China. They are located in Beijing, Tianjin, Chengdu, Shanghai, Guangzhou and Shenzhen. We look forward to expanding more by opening one or two more branches every year and with more sub-branches around our consumer business."*

In Case 9, the bank expands with large geographical scope wherever it is possible, with aggressive expansion of the branch scale and a fast speed of development. As the operations manager (9.1/S-OPE) noted, *"We try to open as many branches as we can and as we are allowed to because basically we cannot decide that we are going to open a branch somewhere and just do it. We have to get approval and that approval takes time and often gets declined. So we try to open as many branches as we can."*

In Case 10, the bank expands wherever possible with a larger scale of branch network. It has followed an aggressive and stable development principle since its entry into the market. As the general manager (10.2/S-GM) explained, *"We are keen on developing our branch network across China. We now have a dozen operating branches and we will continue the expansion in China."* The marketing manager (10.1/S-MAR) explained, *"The market has just opened so fast that (the bank) cannot tolerate the current status to have only more than ten branches."*

Cases 4 and 5 represent the second of pattern of decision. They are less aggressive compared with the first pattern of decision. They tend to have a larger scale of branches as long as they can locate close to their clients. They are less aggressive but not conservative in the speed of branch expansion.

In Case 4, to co-locate with their customer is the principle guiding the decisions regarding the scope, scale and speed of branching. As the deputy general manager (4.1/S-DGM) noted, *"... the basic approach is to open our own outlet. So far we have five branches, three representative offices. For us this is not enough."* The bank keeps a close eye on the movement of their customers. As expressed by the same manager, *"In*

the area which we have not yet covered, we have seen there are Japanese enterprises already established.” Therefore, the main concern is to locate enough branches for the customers.

In Case 5, the bank takes a similar approach to Case 4. The marketing manager (5.1/M-MAR) explained, “... *We actually follow a unique branching policy. So far we only have five branches in Mainland China. ...We try to dominate those areas and to have a very profitable business. Historically this was the branching strategy in terms of location. But sooner or later, we may open a Beijing Branch.*” In this case, Beijing is not viewed as having the same good business opportunities as in some other cities. The location of the branch in Beijing is expected to provide the bank with greater convenience in obtaining regulatory information.

The third pattern of decision is evidently shown in Cases 3 and 7. Both banks are selective in choosing the branch location. They prefer a smaller and necessary scale of branch expansion. The speed of the expansion is not aggressive.

In Case 3, the bank manager did not give a direct response to the branching strategies. But according to the general manager (3.2/S-GM), the bank has not expanded in an aggressive way. Presumably like most other foreign banks, its expansion became less conservative only in the last five years. As he explained “... *in fact, since the entry of China into the WTO, banks have started to diversify their offer and to put this market in the front through expanding franchises...*”

In Case 7, the bank chooses the location wherever a branch is necessary and has the scale to meet the demand. As noted by the operations manager (7.1/S-OPE), “*We believe three branches are currently capable of covering the surrounding area for business with reasonable profit. Therefore, it is unlikely the bank will expand branches very aggressively.*” The speed expansion is not aggressive. As the marketing manager (7.2/S-MAR) expressed, “*(the bank) has set up a group of branches, but is also ambitious to penetrate more but not as fast as (other banks). Still you can see the inspiration.*”

Cases 2 and 6 represent the fourth pattern of decision. Both banks are selective in location choice. They prefer a smaller and necessary scale of branch expansion. They are very conservative in the speed of opening branches.

In Case 2, the bank limits the number of branches to two. As the general manager (2.1/S-GM) noted, *"... it is nice (for the parent bank) to have us because the option of doing something with the branch in two, three or four years is open."* The marketing manager also commented: (2.4/S-MAR), *"For us to put into China ten or twenty branches under our strategy wouldn't make sense."* Rather than choosing a fast and large scope of branch expansion, the bank wants to close down a branch if it does not make profit. As explained by the credit manager (2.3/M-CRE), *"I do not expect that the German client base will become big down there. It will not make sense to open another branch. We are actually closing a branch ..."*

In Case 6, the bank maintains the necessary branch scale and limits the branches to the key cities. The regional manager (6.1/S-REG) explained *"By organic growth we support our North American client base, which is now all over China. And at the same time we have a China that is deregulating, where geographic barriers are becoming less and less important...if you have many clients all over China it may make a sense to open more branches."* In terms of the geographical location, the same manager explained, *"We find those three cities cover pretty much the concentration of those customers."*

7.3.3 Equity Investment Decisions

In contrast to branch entry mode, equity investment has the purpose of seeking strategic assets quickly through integration with the local strategic partner. Equity investment involves more complex decisions including the selection of an appropriate partner, the control of the risks, and the control for gaining benefits from the investment. With minority equity investment, which is the case in this study, making appropriate decisions in these aspects is strategically important for the bank to be able to set up an operation in a new market.

As described in Chapter 2 the complex conditions of making equity investment in the Chinese banking sector makes the investment decisions anything but straightforward. First, the equity investment option has legally been opened to foreign banks only in recent years, thus giving less direct reference for successful conduct. Second, not all the foreign banks, but only the qualified ones, may get permission to be potential equity investors to local commercial banks. Third, it is not easy to identify qualified local banks to meet the requirement of the potential acquirers. As a result, equity investment involves higher risks.

As summarised in Table 7.13, the ten banks made different decisions regarding whether equity investment should be made and which local banks should be the potential invested targets. Four statuses of decisions are identified, discussed as follows.

Table 7. 13 Equity Investment Decisions

	No Intention	In Consideration & Preparation	In Actual Investment in Different Targets		
			City Commercial Bank	Joint Stock Commercial Bank	State-owned Commercial Bank
Case 1		⊙			
Case 2	○				
Case 3			●		
Case 4		⊙			
Case 5		⊠			
Case 6	○				
Case 7				●	
Case 8				●	
Case 9			●		
Case 10					●

Cases 2 and 6 represent the first status of decision. Neither bank has the intention of making equity investment into the local commercial banks. Both banks have made investment in other financial sectors.

In Case 2, the bank does not make equity investment in the local commercial banks. Managers indicated that they understood the benefits of making equity investment in the local commercial bank but they felt it was not the direction for the bank. As the credit manager (2.3/M-CRE) admitted, *"It makes sense to buy a share in a good Chinese bank because that is the fastest way to gain market share. ... We played it a different way.... But in our case, it is more in life insurance, non-life insurance and fund management than investment in the [local partner] ... You are right, when we do strategic investment we are doing it in the financial sector. It is not necessarily in the banking sector."*

In Case 6, rather than making equity investment in the local commercial banks, the bank has investment in fund management. According to the regional manager (6.1/S-REG), *"...Only if you try to compete here in China with famous global banks and local Chinese banks, is it worth making equity investment."* In this case, the same manager said, *"To me I can't feel comfortable that this is the way to spend our capital and our shareholder's funds. ... (The bank) needs to stick more strongly to its strategy and its core competency."*

The second status of decision is represented by Cases 1, 4, and 5. All three cases have intentions of making equity investment decisions. Cases 1 and 4 have made many attempts but have not reached any agreement. Case 5 is not certain of future decisions.

In Case 1, the bank has made efforts to identify equity investment opportunities. The deputy general manager (1.8/S-DGM/MAR) explained, *"The main purpose of such an entry mode is to share the customer base."* Another deputy general manager (1.5/S-DGM) highlighted that, *"Since the Chinese market has huge potential and a promising market, we expect profitability based on an enlarged network in China to sustain profitability in the long run."* The bank is clear which kind of partner it is looking for. As one deputy general manager (1.3/S-DGM/OPE) stated, *"We do have our advantages, but it depends what kind of partners we plan to target. Our expected partner is a smaller-sized joint stock commercial bank in China..."*

In Case 4, the bank is considering making equity investment with a gradual approach. As explained by the deputy general manager (4.1/S-DGM), *"You can see we undergo many stages to cooperate with the local Chinese banks. The final stage could be equity investment."* The benefit for making equity investment is clear. The same manager noted, *"For equity investment, each bank has its own purpose. If you are targeting the retail banking market, the main purpose of purchasing a share of the local Chinese bank is to share their branch network."* A particular reason was mentioned by the marketing manager (4.3/M-MAR), *"We keep searching for opportunities to make equity investment in a local Chinese bank. But given the political issue, it is relatively more difficult for a Japanese bank to become a shareholder of a Chinese local bank."*

In Case 5, the decision to make equity investment hasn't been made. As noted by the marketing manager (5.1/S/MAR), *"I do not know about the future, whether or not we are going to take the policy of buying the local bank or acquiring some departments over there. The reason for not doing so is because it is tough to exert due diligence."* The benefit from the investment lies in the network and expansion of business scope. The same manager concluded, *"Foreign banks have only a few branch networks. They cannot do personal banking with such a small network. So the reason for their investment in local banks is for the future. After all the business is opened for foreign banks, they can be well-prepared to do whole range of banking business, especially personal banking."*

Cases 3, 7, 8, 9 and 10, represent the third status of decision. These banks have already made the equity investment decisions. They have targeted different types of local commercial banks. Cases 3 and 9 invested in the city commercial banks, Cases 7 and 8 invested in the joint stock commercial banks and Case 10 invested in a state-owned commercial bank.

In Case 3, the bank made equity investment in a local city commercial bank. Sharing the network is potentially the purpose of the investment, as mentioned by the general manager (3.2/S-GM), *"I cannot imagine any foreign bank will be able compete one day with local Chinese banks. We should not forget the market is huge and (a local bank)*

may have some 20,000 branches. How can a foreign bank compete with such a 'monster'? To expand the business scope is the benefit expected from equity investment. The same general manager addressed, "...the market is so huge and there are lots of products that only the local Chinese banks can offer." The investment provides "a better understanding for (the bank) of the retail banking market".

In Case 7, the bank made equity investment in a local joint stock commercial bank. The benefits from the investment are expected. As the operations manager (7.1/S-OPE), noted, "The main purpose is to make use of the network and information of (the partner) to promote our private banking products." The marketing manager (7.2/S-MAR), addressed the strategic importance of equity investment, "(the) organic growth is too slow for any foreign bank in China." The same manager explained why a joint stock commercial bank, a smaller-sized local Chinese bank has been chosen as the partner and he said, "It is our belief that China will allow foreign banks to acquire a controlling stake in the future but only to start with smaller banks."

In Case 8, the bank made equity investment in a local stock commercial bank. The investment purpose is clearly set up from the very beginning of the partnership, which focuses on the expansion of business scope. As the marketing manager (8.1/S-MAR), explained, "We have defined the scope of business we can do jointly together with our partner. When we did the investment, it was meant to focus on cooperation in the credit card business."

In Case 9, the bank has equity investment in a newly-established city commercial bank. The investment aims to share the branch network of the local partner. As the credit manager (9.4/M-CRE) explained, "Many foreign banks choose the way to buy the stake of local banks because it is the quickest way to develop the network. If you develop the huge network by yourself, the cost is high and it is not easy to reach the size or volume of network the local Chinese banks have developed."

In Case 10, the bank has made equity investment in a state-owned commercial bank. The purpose of the investment is noted by the marketing manager (10.1/S-MAR), "...to

have a larger market share only by organic growth is impossible. The only thing you can do is to grow organically on the one hand, and on the other acquire a local strategic partner". The investment is part of the whole investment in China. As noted by the general manager (10.2/S-GM), "the bank not only provides banking services to the client but also investment and insurance. So if you have a stakeholder in that particular industry, they will be given a lot of synergy when you can provide seamless or one-stop services. That is the picture. (The bank) is still committed to development from this particular perspective."

Despite a common agreement on the benefits of making equity investment, the decision to make equity investment is thought to involve higher risk than taking a branch entry mode. The risks lie in three areas: the selection of a suitable local partner, strategic management control, and integration with the local partner. As summarised in Table 7.14, risks in the three areas are addressed partially or totally across cases.

The response of bank managers did not cover all the risk dimensions, partially due to the sensitivity of the topic, as most bank managers indicated equity investment decisions are not what the operational managers are concerned with at the branch level. Also the missing comment is partially attributed to the stage of investment. Banks that have already made equity investments are more concerned with the management control risk and integration risk rather than the partner selection risk as those banks have just started the investment.

Specifically, although Cases 2 and 6 haven't made equity investment in local commercial banks, their investment in other financial sectors brings direct experience. In Cases 1, 4 and 5, the bank is either uncertain about the decision or is still searching for the right partner. Their concerns focus on the risk of partner selection. In Cases 3, 7, 8, 9, and 10, they have concerns about risks in the all three areas. In Case 10, bank managers directly focus only on the integration issue, which may indicate the fast movement of the bank in equity investment compared to others.

Table 7. 14 Equity Investment Decisions – Risk Concerns

	Strategic Partner Selection	Management Control	Uncertainties of Integration and Return
Case 1	If the bank really wants to find a potential partner, this partner must be someone similar to us in terms of overall capability.(1.1/M-OPE); We have to be very careful in searching for the right partners by matching the network and quality of the employees.(1.8/S-DGMM/MAR)	When we can only hold a minority or very small share in a local bank, we cannot play any important role. What maximally you can do is to send a board director into the invested bank.... Until we can have more than 20% of the share, it might not be the right time to consider the action. (1.8/S-DGMM/MAR)	...the investment will involve lots of integration work with the local partner resulting in some uncertainties. In comparison, we have more control to expand through branching.(1.5/S-DGM/OPE)
Case 2	(The bank) is large enough to have considerable market share and their presence in the nation is wide. (2.3/M-CRE)	With a 20% stake you do not have any say in the invested bank. I don't see how you can get the customers. In my opinion the investment can only bridge the market if you are allowed to buy the full stake or to buy over 50%. (2.4/S-MAR)	You can expect return but to do a feasibility study to show you have to make the investment is nonsense. If you follow normal rules to justify your investment, you shouldn't do anything.(2.4/S-MAR)
Case 3	n/a	With 20% you are a minority shareholder, the product sold by (the local bank's name) it is not under our logo. It is very different from developing an activities franchise from internal resources. (3.2/S-GM)	But the synergy would not be huge because these two banks have different type of clients and different markets.(3.2/S-GM)

Table 7.14 continues

	Strategic Partner Selection	Management Control	Uncertainties of Integration and Return
Case 4	We keep searching for opportunities to make equity investment in a local Chinese bank. But given the political issue, it is relatively difficult for a Japanese bank to become a shareholder of a Chinese local bank.(4.3/M-MAR)	The basic approach is to open our own outlet, the second approach is to strengthen the cooperation with the local Chinese banks. We can exchange information on customers with each other...The final stage could be equity investment.(4.1/S-DGM)	Of course if the decision is made and if we really made the investment, no one will go back to see the original purpose of making such investment to assess whether the target has been realized.(4.2/M-OPE)
Case 5	The reason for not doing so is because it is a tough work to exert due diligence. For some of the local banks, their information is not transparent.(5.1/M-MAR)	n/a	n/a
Case 6	Mutual fund is also a very unique business line in the financial industry. So I think it depends on which business line they want to go into. Then you will pick the target and try to get the strategic investment partner.(6.1/S-REG)	If you go out and buy a little portion of a big local bank, you spend a whole lot of money for very little control and it is a shot-gun approach, which means you are not following your clients and you are not following a specific line of businesses and expertise ...(6.1/S-REG)	We are working very well with our local partner.(6.1/S-REG)
Case 7	n/a	We put equity investment into (the local partner bank), not to control them, but to let them know we are seriously interested in a strategic partnership and we will help you if you help us. With this one you will see that 20% is the only foundation out of which we will have a platform much more meaningful than joint ventures.(7.2/S-COO)	If you asked whether it is easy to achieve what we expect from (the local partner), like any cooperation agreement, you really need to make sure that you really understand the motivations of your partner.(7.3/S-COO)

Table 7.14 continues

	Strategic Partner Selection	Management Control	Uncertainties of Integration and Return
Case 8	Not only for (us), but for all the multinational banks, they will have to run through the processes to know who is the right partner...(8.1/S-MAR)	So I think it is unlikely you will have the control of management by having a 20% share. (8.1/S-MAR)	There will be healthy discussion, there will debate, then there is consensus reached and then we just get the management there to execute whatever is jointly agreed at the board level.(8.1/S-MAR)
Case 9	We have been looking for an opportunity for a quite a long time. ... On most of the occasions, the problem of (local Chinese bank) is the bad debt issue. We do not want to put money in as some people did, we are really cautious...(9.1/S-GM); ...in China everything takes time. We wouldn't be rushed into making investment. It should be the right bank.(9.2/S-MAR)	...but you know we only have 20%, we are not a majority shareholder. We can certainly not dictate what happens but we are trying to influence what happens.(9.2/S-MAR)	We try to work together. We know there is no easy way in China. When I work with them, I feel we really need to convince them why you want to get involved. Some of the people really open their heart to listen. But some of them don't.(9.1/S-GM)
Case 10	n/a	n/a	You know the China market and the local partners are not so easy to move towards the direction you want it to be. So the process will be gradual.(10.1/S-MAR)

7.3.4 Summary

The analysis in this section focuses on the strategic entry mode decisions. The data show that banks adopt two dominant entry modes, i.e., the branch entry mode and the equity investment entry mode. As summarised in Table 7.15, in both entry mode choices these cases have made different decisions, which implies they have set up different operational platforms to conduct business in China.

Table 7. 15 Implications of Different Strategic Entry Mode Decisions

Entry Mode	Current and Potential Differences	Implications of the Differences
Branch Mode	banks are different in choosing location for branches	As a result of the different decisions, banks have set up their own local network with different characteristics
	banks are different in deciding the scale of branch network	
	banks are different in the speed of branch expansion	
Minority Equity Investment	banks are different in whether or not to make investment in the commercial banking sector	Equity investment indicates further commitment to the local market to meet the entry motive that cannot be met by choosing only the branch entry mode
	banks are different in selection of local partner	
	because of the involvement at different stage of investment, banks are involved in different risks	

First, a detailed cross-case comparison demonstrates that even by taking the same branch entry mode, banks have made different entry decisions. Banks differ in their decisions regarding their choices of geographical location, the scale of branch network, and the speed of branch expansion. As a result of different configurations of the above decisions, banks have set up their own branch network with different characteristics for operation in the local market.

Four patterns of decision are identified: i) aggressive banks expanding the branch network in different locations, on a larger scale and quickly; ii) less aggressive banks expanding the branch network close to the customer, with scale and speed following the expansion of the customer; iii) less conservative banks expanding the branch network in a limited area with the necessary scale and speed; and iv) the most conservative banks setting up branches in the key areas and hardly expanding or doing so slowly.

Besides the above differences, there are similarities across cases. First, in the branch expansion decisions, banks tend to be less sensitive to location choice. Both the local economic and regulatory concerns are considered in the location choice of branches. However, as the regulation information becomes crucial, most cases tend to set up a branch in Beijing. Also most cases are not satisfied with the branch network built by themselves. Except for the two more conservative banks, which have made equity investment in the non-banking financial sectors, the other cases either have made equity investment or started considering making equity investment in the local commercial banks.

Second, in the equity investment decisions, banks have exposed risks in three areas representing different stages of the investment: selection of partner, management control, and integration risks. All banks have risk concerns in one or more dimension. The risk concern implies the equity investment may provide a better platform for seeking strategic assets but also involve higher risk.

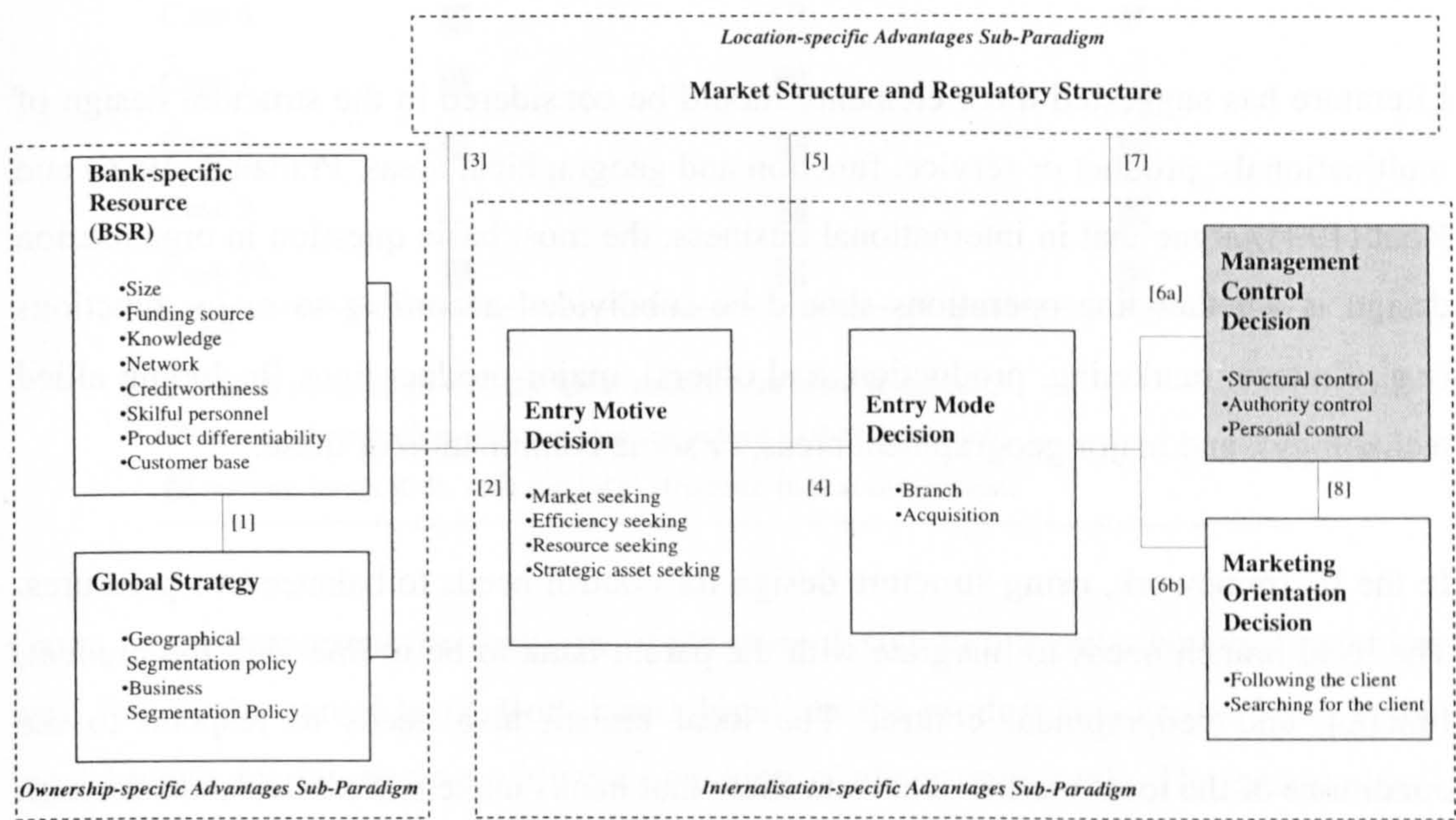
It is evidently true that branch entry mode provides banks with management control but an insufficient platform for expansion. In contrast, the equity investment approach provides the bank with a platform for a potentially quicker development but insufficient opportunity for management control. The trade-off relationship may explain why even banks made the equity investment; it is important for them to have the organic approach in parallel.

7.4 Management Control Decisions

7.4.1 Management Control Choices

This section analyses the management control decisions of the ten cases. This focus of analysis is highlighted in Figure 7.4 according to the conceptual framework. Appendix D-3 provides further evidence of the analysis result from this section.

Figure 7. 4 Focus of Analysis – Management Control Decisions



The choices in the management control mechanism concern specific control measures that a firm can take for the control of its overseas operation. According to the conceptual framework, the three measures are: i) structure control; ii) authority control; and iii) personal control. Decisions for each control measure involve a balancing act between achieving global integration and the responsiveness of the individual bank to the local market.

The data reveal that the ten cases have made different decisions in each management control measure in order to balance integration with the parent bank and responsiveness

to the local market. The conclusion that these cases have made different management control decisions is supported. The following analysis aims to identify and explain both the similarities and differences in the management control decisions across the ten cases.

7.4.2 Structural Control

The meaning of structural control refers to banks using structural design as a tool not only for organising different functions in providing a service, but also for controlling the operation in the local market.

Literature has suggested three elements should be considered in the structure design of multinationals: product or service, function and geographical areas. Prahalad (1976) and Root (1994) argue that in international business, the most basic question in organisation design is whether line operations should be subdivided according to major functions (e.g., finance, marketing, production, and others), major product lines (including allied technology), and major geographical areas, or some combination of these.

In the IR framework, using structure design for control needs to balance two pressures. The local branch needs to integrate with the parent bank to be in line with the product, function and geographical control. The local branch also needs to respond to the conditions of the local market. The data show that banks make similar decisions through structure control to integrate the local operation with the parent bank, but that they make quite different decisions through the same approach to respond to the local market.

The first part of the analysis focuses on the integration side of the structural control relation. The data suggest a matrix structure design has been widely adopted by all the cases. As summarised in Table 7.16, each case has its own focus on certain structural design elements to integrate the operation in the local branch with the parent bank. Five patterns of structure design to organise and control the operation of the local branch are identified, as follows.

Table 7. 16 Structural Control – Integration with the Parent Bank

	Elements Focused on Structure for Integration		
	Product & Service	Function & Customer	Geographical Area
Case 1	□	■	■
Case 2	■	□	▴
Case 3	■	■	□
Case 4	□	■	□
Case 5	□	■	□
Case 6	■	□	▴
Case 7	■	■	□
Case 8	■	■	■
Case 9	□	■	■
Case 10	■	■	■

Note:
□ = less integration with the local structure in that dimension;
▴ = some integration with the local structure in that dimension;
■ = more integration with the local structure in that dimension.

Cases 2 and 6 represent the first type of structure design to integrate the local operation with that of the parent bank. Both banks highlight the product line as the focus at the local branch for integration with the operation of the parent bank. The geographical element is less focused.

In Case 2, the country operation officer (2.2/S-COO) explained, “*The structural design of the branch is product and service-based. It is product-based such that all trading and corporate financing advice products are handled by the invest bank division and the activities are managed by the global head of the respective business unit. And for the supporting services, it is also like this.*” As noted by the marketing manager (2.4/S-MAR), “*The branches here in China are linked to the units in the head office. We have to structure our branches in line with the structure of the whole group.*”

In Case 6, the regional manager explained (6.1/S-REG), *“People like myself or the branch manager in Beijing or Guangzhou have a geographic dimension, then we have a line business such as trade finance, capital market, foreign exchange, corporate lending, etc.”* The general manager (6.4/S-GM) said, *“I think the way to do it better is to have a very efficient line business....”*

Cases 4 and 5 represent the second type of structure design to integrate the local operation with that of the parent bank. Both banks highlight the function and customer elements. Customers are divided into two segments, i.e., the Japanese customer and the non-Japanese customer.

In Case 4, the deputy general manager (4.1/S-DGM) noted, *“For corporate banking we normally do not need a front office because we structure our operation by customers. We have a Japanese enterprise department, and non-Japanese enterprises. This is the main and also simple way to organize.”*

In Case 5, the marketing manager (5.1/S-MAR) explained, *“Basically, marketing teams are customer-oriented. We have a special team for the Japanese clients; we have a special team for non-Japanese clients. We have each branch in charge of each territory.”* The deputy general manager explained (5.2/S-DGM/OPE), *“When products are limited to China, the function-oriented design is more appropriate.”*

Cases 3 and 7 represent the third type of structure design to integrate the local operation with that of the parent bank. Both banks address the product/services as well as functional control of the local operation.

In Case 3, product and function are important to integrate with the parent bank after the structure design is influenced by the merger and acquisition. The marketing manager (3.1/S-MAR) said, *“After the merger, we are more in line with the pole style, which means the organizational design follows the products and functionality.”*

In Case 7, the operations manager (7.1/S-OPE) explained, *“When I worked in the Japanese bank, the horizontal management was more dominant. The branch manager was quite powerful... But in a European bank, the vertical management is dominant, with cross-selling and cross-support between the vertical lines. This is what we called matrix.”*

Cases 1 and 9 represent the fourth type of structure design to integrate the local operation with that of the parent bank. Both banks focus on function and geographical control to integrate with the parent bank.

In Case 1, the deputy general manager (1.4/S-DGM/MAR) described it as follows, *“Our bank structure is designed more by geographical area. For example, in the Beijing area, the General Manager of the branch is the main responsible person. The General Manager reports to the manager of the China Division.”* The same manager explained that, *“The matrix design according to the business line may work better. But in China, country risk can drive lots of problems which require quicker and more centralized decisions.”*

In Case 9, the operations manager (9.3/S-OPE) explained, *“The organization structure is currently following the matrix design, which has two dimensions. One is the geographical dimension and the other one is the function dimension. From my perspective, this bank is dominantly functionally structured.”* The focus on the function element is confirmed by the credit manager (9.4/M-CRE), *“The structure is always moving between geographical basis and function basis. But in recent years, we are more focusing on the functional basis. The balance of these two dimensions depends on the business volume in each location.”*

Cases 8 and 10 represent the fifth type of structure design to integrate the local operation with that of the parent bank. Both banks focus on every element of the structure design for the local operation to integrate with the parent bank.

In Case 8, the marketing manager (8.1/S-MAR) explained, *“Basically you can see the concept follows geographic, products, customer groups. Geographic concept means global, Asia, and China.”* Products can be divided into transaction services product, treasury products, fees-income products, and capital products. So you can divide it to a level where we manage it. Then you have the customer-based concept including large corporate, multinationals, financial institutions, small-medium-sized enterprises. Each business unit will have at least a three-dimensional matrix, one geographic, one product and one customer group.”

In Case 10, the marketing manager (10.1/S-MAR) explained, *“(the Bank) is also picking up the matrix management way. My department is more in charge of product support. We are product-based specializing in trade service and we are supporting all different customer groups. The customer groups include multinational companies, the local companies, and the small and medium company. These customer groups are managed by different groups by functions. ...But product-wise we have treasury, cash management, and consumer services to support all kinds of customers. So this is a kind of matrix.”*

The second part of the analysis focuses on structure control for local responsiveness. As the local branch develops, the conduct influences the structural control relationship. Specifically, as the local branch expands business further, as occurs in most cases, it needs to centralise the decisions to better respond to the local market. As a result, a local head office is established as the justification of the structure.

Table 7.17 Structural Control – Responsiveness to the Local Market

	Setting up Local Head Office		
	No Intention	In Consideration (Quasi- Local Head Office)	In Operation of Local Head Office
Case 1		⊙	
Case 2	○		
Case 3		⊙	
Case 4		⊙	
Case 5		⊙	
Case 6	○		
Case 7		⊙	
Case 8			●
Case 9			●
Case 10			●

As summarised in Table 7.17, the data suggest because of different developments in the local market, banks make different decisions regarding the establishment of the local head office. Three types of decision are identified, which is evidenced as follows.

Cases 2 and 6 represent the first type of decision. Both banks decide not to set up the local head office.

In Case 2, the bank does not have a China division of the parent bank. It has no intention of setting up a local head office. The country operation officer (2.2/S-COO) explained, *“The idea of the head office in China is not really to have big resources in China in a big operation in most cases, but rather to have a sales force here, to only do locally what it has to do locally.”* The same manager said. *“(Banks) have to decide whether they really want to expand here which could be quite expensive or they try to get along with the resources they have now and try to use them more efficiently.”*

In Case 6, the bank has no intention of setting up a local head office. The main reason is because the size of the local business is not big enough. As the Regional manager (6.1/S-REG) explained, *“Regarding a head office in China, I think if you have more than five branches in China, you need to have the head office located in China.”* The marketing manager raised the same point (6.2/M-MAR), *“The balance suited to the horizontal integration is determined by the size of the bank, which is the key factor to be considered.”*

The second type of decision is represented by Cases 1, 3, 4, 5, and 7. These banks need or decide to have a local head office but they have not set it up formally. In some cases, they have assigned the role to the local branch to have a quasi-head office function already.

In Case 1, the decision of setting up a local head office is considered. As the deputy general manager (1.3/S-DGM/OPE) explained, *“Several years ago, we thought about moving the China Division to Mainland China... the plan was not implemented because of the monitoring and cost concerns. But from the long-term point of view, the headquarters (the current China Division) should move their main functions to Shanghai. By that time, we need to localize the people in Shanghai to take over the role of the China Division.”*

In Case 3, the bank has recognised the benefits if the local head office is set up in China. As the marketing manager (3.1/S-MAR) noted, *“...it will increase efficiency by moving the head office from Singapore to Hong Kong, or the one in Hong Kong to China. The decisions made in Paris, or Singapore, or in Hong Kong would be impacted by the distance, or the nationality of the people involved. It is always those who are located in the market who know China’s business better.”*

In Case 4, the bank is considering moving its head office to the local market. As the deputy general manager (4.1/S-DGM) explained, *“We didn’t move the head office to the local market because normally setting up headquarters benefits the large scale businesses. Of course, we are also considering moving the China Division from home to*

China, which will be more convenient.”

In Case 5, having a local head office is considered necessary because the China market is different from other Asian markets. As the marketing manager explained, *“Although all this area is called Asian-Pacific ... China is a very independent and unique area. That is why we need a special team for China and to separate China from the other Asian regions.”* The deputy general manager (5.2/S-DGM/OPE) explained, *“The parent bank is actually making a profit in China and it plans to expand further. For example, it decided to set up China Head Office formally in Shanghai.”*

In Case 7, the size of the local business is crucial in the decision to set up a head office. The operations manager (7.1/S-OPE) explained, *“Another way is to create new positions for each country market called the Chief Country Officer (CCO) or Chief Operation Officer (COO) to coordinate decisions across the different vertical lines. (The banks) also have a CCO and COO, but unlike (other banks) that established a China head office, we have fewer branches, so there is no China head office.”*

The third type of decision is represented by Cases 8, 9, and 10. These banks have already operated under the established local head office.

In Case 8, the marketing manager (8.1/S-MAR) explained, *“We moved our headquarters in the mid-1990s from Hong Kong to China. We were the first foreign bank to move their headquarters from the area outside Mainland China to Mainland China. For many reasons, we feel that our China headquarters needs to be in Mainland China. And then we further expanded the head office into the CEO structure two years ago. The CEO structure also follows the matrix structure as described but one site at the top can make most of the decisions.”*

In Case 9, the general manager (9.1/S-GM) explained, *“We set up the head office around 1998 or 1999. By its establishment we really want to show our commitment in China. We also need to have specific group people to sit there to feel the market, smell the atmosphere so that we can make wise decisions. You have some other cases where*

banks do not have people sitting in China; rather they may sit in Hong Kong or Singapore. But these people will never have the time or the patience to understand what the China market is. This would be not good for our bank because we recognise that China is such an important market."

In Case 10, the local head office management has been established in a comprehensive way. As the general manager (10.2/S-GM) explained, *"For the corporate banking, we have one exclusive head office in Shanghai. The Shanghai corporate banking business is functionally run by the function department of the China head office."* Such a control structure enhances responsiveness to the local branch. The same manager explained, *"We believe firmly in the principle that the branch manager, as well as the country CEO, takes the full responsibility for the particular regions and branches."*

7.4.3 Authority Control

Authority control refers to the fact that the head office of the multinationals delegates certain authority to the local subsidiary. Authority control concerns the extent to which the power of decision-making should be decentralised to the local operation unit. This analysis refers control to the credit authority in the context of corporate lending decisions.

In the context of corporate lending, the parent bank makes credit policy regarding the allocation of credit to certain industries, certain main clients and with certain purposes. To implement the credit policy, the parent bank delegates to the local branch credit authority based on different criteria including the geographical area, the type of product or service, the group of customers, and the credit volume.

The data show that to integrate the local branch operation with the overall operation, the parent bank tends to empower less authority because too much authority may increase operational risks, making the parent bank lose control of the local branch. All the cases are similar in that the delegated authority for the approval of the credit proposal is limited.

The data also show that to respond to the local market, the parent bank tends to delegate to the local branch managers at different position levels with different scope and grades of authority for the manager to make decisions in certain product areas. Because of the different development of each case, the decision regarding how much the local branch becomes involved in credit assessment, which is part of the approval process, is different across banks.

As summarised in Table 7.18, three statuses of credit authority control are identified. In one status, the parent bank makes all the credit approvals. In the other status, the local branch is the focal area where credit approvals are processed. Most of the cases fall into the status in between the two situations, i.e., that the local branch is involved in the initial assessment of the credit approval, while the final approval is made at the parent bank. The three statuses are discussed as follows.

Table 7. 18 Authority Control – Integration and Responsiveness

	Location of Credit Approval		
	Parent Bank	Cross	Local Branch
Case 1	●	⊙	
Case 2	●		
Case 3	●	⊙	
Case 4	●	⊙	
Case 5	●	⊙	
Case 6	●		
Case 7		⊙	●
Case 8		⊙	●
Case 9		⊙	●
Case 10		⊙	●

Cases 2 and 6 represent the first type of decision. Both banks have the final credit approval based in the parent bank rather than in the local market.

In Case 2, the credit authority is limited to the local branch. As the general management (2.1/S-GM) explained, *"We rely on our colleagues in Germany to make credit assessment and approval. We rely on the communication between the local branch and the parent bank for each individual lending decision and individual customer."*

In Case 6, the authority for credit approval is centralised in the parent bank and the problems are exposed. As the regional manager (6.1/S-REG) explained, *"For corporate lending, I have no rights to sign...I don't think the authority is problem. I might feel there is a lack of understanding of true credit risk in China."* As the marketing manager (6.2/M-MAR) explained, *"... the credit people from the head office should come to China. You can imagine that if they haven't come to the actual market, their mindset could be different. In fact, we lost many good local opportunities because the policy is not supporting us to develop in that direction."*

Cases 1, 3, 4, and 5 represent the second type of control decision. A limited authority is delegated to the local market; therefore the credit approval process is only partially based in the local market.

In Case 1, credit policy is made by the parent bank and the Local Bank participates in part of the assessment in the whole credit approval process. As the credit manager (1.1/M-CRE) noted, *"In credit assessment, I do not have the power to make the final decision. But if I do not think I can sign the proposal, the proposal will not be submitted."* Another credit manager (1.7/M-CRE) explained, *"The most important support from the parent bank is the credit policy. We will make the assessment according to the policy. We do not need to elaborate but only to follow the guidelines."*

In Case 3, the marketing manager (3.1/S-MAR) said, *"You have to be very clear about the definition of authority. By geographical limit, my authority is limited to the Beijing area. If one business should belong to the Shanghai area, then I need to transfer to Shanghai. By credit volume, the authority is very limited. I would say even my boss here has very limited credit volume, say RMB 100-200 million."*

In Case 4, the deputy general manager (4.1/S-DGM) pointed out, *"I feel the credit authority is too limited and not sufficient as the business develops. For each credit application, it is very complex because we have to get the approval from the credit department in the China Division, which is normally not necessary in my personal view."* The approval is based in the parent bank, as the operations manager (4.2/M-OPE) noted, *"Most of the cases will be approved at home. Of course the branch manager has a certain range of authority. But the credit authority is very limited."*

In Case 5, the marketing manager (5.1/M-MAR) explained, *"I think the General Manager should have more power. Sometimes it is time consuming to go to Tokyo every time. If the risk is very small, maybe we can decide by ourselves. But according to the credit policy and credit procedure, in many cases we have to go through Head Office for the purpose of control. Actually Japanese banks have almost the same policy and procedure."*

The third type of control decision is represented by Cases 7, 8, 9, and 10. Credit approval is based more in the local market.

In Case 7, the country operation officer (7.3/S-COO) described how, *"[We are] not like other foreign banks having credit people actually sitting in the regional office. We have the credit people here. I think it is important from different angles that you need to have expertise here. But sometimes I know banks have some Chinese individuals based in Hong Kong or Singapore to look after the credit assessment. It is also durable to a certain extent. But if you really want to do local business you have got to be here."*

In Case 8, the marketing manager (8.1/S-MAR) explained, *"In fact different policies are formulated by experts in different areas. We call these experts the owners of the policies. At the branch, we do not formulate the policy. Our job is to make sure the policy is implemented. All the policy is made at the global level."* The local branch in this case has a certain responsibility to implement the credit policy with limited approval authority, although this point is not directly made by the manager.

In Case 9, the credit manager (9.1/S-CRE) noted, *“Most of the foreign banks, maybe they do not have the credit function or department sitting in China; they may still centralize the decision in the head office. The good side of having a credit function here is in regard to whether your business volume is big enough to have function here. If your business volume hasn’t reached a certain level, it is not just fine to have people here. If you do not have people work here on credit assessment, it is not possible for people to understand the market in China.”*

In Case 10, the general manager (10.2/S-GM) explained, *“It depends on the actual amount of credit, the branch manager can approve some, and the country manager can approve some. ... the majority of the case will be approved onshore. I know most of the foreign banks will send the proposal overseas. Again that is the demonstration of ability of (the bank) in China. You need to get credit approval in China so that people will understand what the real situation is here so that their credit analysis can be more to the point.”*

7.4.4 Personal Control

Personal Control, or expatriate control specific to this research, means multinationals send senior or key function managers to work in the local market. The data suggest that expatriates are normally assigned to positions such as the general manager or key functional managers in charge of marketing, operation, and credit control. People from the parent bank in these positions enable the operation in the local market to be kept under control.

The literature (Anderson *et al.*, 2005:534) suggests the using of expatriates is a dilemma for the method of control. Under the IR framework, expatriate help achieves control because they strengthen the integration of branches with the head office. But to some extent they also limit the potential subsidiary responding to the local market.

The analysis focuses on whether banks make different decisions in using expatriates to control the local operation. From the integration side, the data suggest that use of expatriates can strengthen integration in three ways: i) transferring knowledge, expertise,

and experience of operation, and customer relations; and ii) implanting the culture of the parent bank to the local branch. As summarised in Table 7.19, at least one dimension as mentioned above has been reflected to suggest that the role of expatriates enhances integration across all the cases.

Table 7. 19 Expatriate Control – Integration with the Parent Bank

	Transfer Knowledge, Experience, Customer Relation	Transfer Corporate Culture
Case 1	<p>Most of our customers are Hong Kong based called the foreign invested enterprises. Marketing people need to <u>communicate</u> with these customers. The expatriate bridges the communication between the Parent Bank and the local market.(1.4/S-DGM/MAR);Expatriates are needed for bringing <u>intelligence</u> for market analysis and good sense of judgment of risks. You can see it is difficult to find these kinds of people in this market at the moment. (1.1/M-OPE)</p>	n/a
Case 2	<p>...<u>know-how</u> also includes the guanxi within the bank, the connection, that you have people here who know the head office, how head office works, how the loan application is approved.(2.3/M-CRE)</p>	n/a
Case 3	<p>...it depends on how the lower level people reported and gave analysis to see whether the same business environment affects most other banks the same way to a particular bank and furthermore, whether the effect on a certain case follows <u>the same way</u> on the other part of the portfolio. All this requires a dual way of communication.(3.1/S-MAR)</p>	n/a

Table 7.19 continues

	Transfer Knowledge, Experience, Customer Relation	Transfer Corporate Culture
Case 4	Expatriates are important because they can better <u>communicate</u> with the Japanese clients.(4.3/M-MAR)	More importantly it is very necessary for the local staff to learn from the Parent bank at the middle management level. ...Local employees need to know this bank's <u>culture</u> so that they can represent the bank in the market.
Case 5	We have people assigned by the Parent Bank ... most of them are working on international <u>coordination</u> , auditing, or information investigation. These are functions to support business in China.(5.2/S-DGM)	Expatriates need to understand the local market, in the meanwhile, local employees need to know the <u>culture</u> of this bank so that they can represent the bank in the market.(4.3/S-MAR)
Case 6	The people from head office may provide training, product <u>knowledge</u> , marketing strategy and a business plan for their line business.(6.1/S-REG)	The branch has inherited some corporate <u>culture</u> from the Parent Bank. We have established a very friendly, peaceful team-working environment.(6.3/S-DGM/OPE)
Case 7	Once the market is ready maybe in five or six years, we will have local individuals to be localized to as much as possible without losing culture and <u>know-how</u> , all these things.(7.3/S-COO)	...to instil your proper <u>culture</u> , which is also very important. If you hire so many people but you are far away from the head office, you have to make sure your core values are here.(7.3/S-COO)

Table 7.19 continues

	Transfer Knowledge, Experience, Customer Relation	Transfer Corporate Culture
Case 8	Those areas that need to deal with customer relation we have more expatriates who can better <u>communicate</u> with our global customers.(8.2/M-LM)	n/a
Case 9	What is equally important, those people working in this bank for many years they have built up a good network <u>relationship</u> with different entities outside the bank and with different departments within the bank on different locations. These people can better help to <u>coordinate</u> with our colleagues or counterparts globally.(9.3/S-OPE);These expatriates can help to transfer the <u>knowledge</u> in terms of international practice, in terms of cultivating people in the operation to the requirements of our group head office.(9.3/S-OPE)	n/a
Case 10	I think the expatriates are still playing an important role in terms of leadership, in terms of <u>coaching</u> the local staff, in terms of <u>retaining</u> the interest of shareholders.(10.1/S-MAR)	n/a

From the responsiveness side, the data suggest as banks become localised i.e., adapt banking practices to the local market; most cases try to reduce the reliance on expatriate control.

As summarised in Table 7.20, in most cases the reliance on expatriates has decreased over the years. In Cases 4 and 5 the reliance on expatriate control decreased in a gradual way. The exception is found in Case 2, where the total number branches have decreased without much change in the number of expatriates; the reliance on the expatriates did not show a trend of decrease. Also in Case 8, the manager did not respond to the question.

It is not appropriate to suggest that expatriate control may limit local responsiveness. In fact, the data show, as the banks are more localised, expatriates are also educated in the local market. The result of such education is that they know how to respond to the local market better than the people in the parent bank.

Change of reliance on expatriates is reflected in the data, but only representing the trend of development. In some cases, such as Case 10, the reliance on expatriate control is decreasing as the bank localises. However, because the bank is also expanding quickly, the reliance on expatriate control is maintained, suggesting that localisation requires time or can never be completed.

Table 7. 20 Expatriate Control – Responsiveness to Local Market

	Reliance on Expatriate	Change of Expatriate Control
Case 1	I feel we rely on expatriates especially for development at the early stage of the branch. This branch has developed for three years, I can feel the reliance on the expatriates is changing; we are <u>less demanding</u> in expatriates' support than at the beginning.(1.1/M-OPE)	DECREASED
Case 2	If you have a Chinese manager to deal with there will be a communication problem. That is very easy for the expatriates here and that is why we have so <u>many expatriates</u> here.(2.4/S-MAR)	NOT DECREASED
Case 3	Even if the number the expatriates does not change, the percentage of expatriates to senior staff may see a <u>reduction</u> because more local staff were put in the senior position when the business was expanded.(3.1/S-MAR)	DECREASED
Case 4	The reliance on expatriates has been like this for a long time. In the past the operation and management managers were also Japanese, now these two roles are localized. But in general, you can see all the marketing managers are Japanese.(4.2/M-OPE) At the middle level, the bank is <u>gradually</u> localised.(4.3/M-MAR)	GRADUALLY DECREASED
Case 5	I know (the bank) has a plan to <u>localise</u> senior managers gradually. Several years ago, the bank started giving local staff some senior positions. (5.2/S-DGM/OPE)	GRADUALLY DECREASED

Table 7.20 continues

	Reliance on Expatriate	Change of Expatriate Control
Case 6	The bank does not rely on the expatriates. At the beginning of the establishment of the branch we had three expatriates. Now <u>only</u> the branch manager is an expatriate. (6.2/M-MAR)	DECREASED
Case 7	I would believe the role of expatriate would be less if more and more local corporates are targetted to be our clients. That is why lots of foreign banks are <u>localising</u> . (7.2/S-MAR)	DECREASED
Case 8	n/a	n/a
Case 9	Our localisation rate here is quite high perhaps over 90%. Compared with other foreign banks, we are really aggressive in that way. So luckily we are doing quite well. Some of the senior officers are <u>local people</u> . I am the only expatriate here. (9.1/S-GM)	DECREASED
Case 10	I don't see this trend will change very fast. Looking to the future, I believe the senior positions will be taken by the expatriates. But the management at the middle and lower level can all be <u>localised</u> . (10.1/S-MAR)	DECREASED

7.4.5 Summary

The analysis in this section focuses on the management control decisions in the entry strategy. The data show banks adopt three control measures: structural control, authority control and expatriate control. The integration and responsiveness framework is used to analyse each control decision.

As summarised in Table 7.21, banks do not make the same decisions along the three control measures. The three measures are adopted to integrate the operation of the local branch with the parent bank similarly across cases. But in the decisions for responding to the local market, banks have made different decisions.

Table 7. 21 Implications of Different Management Control Decisions

Control Measures	Integration	Responsiveness	Implications
Structural Control	Local Branch is the extension of the matrix structure of the Parent Bank.	Banks focus on different structure elements in order to integrate the local operation with the operation of the Parent Bank.	Structural control for the local operation has to follow the main control measure in the Parent Bank.
		Banks make different decisions regarding the establishment of local head office.	To have more responsiveness and independent identity in the local market, banks adjust structure which may require to commit more resources to the local market.
Authority Control	Local Branch has no authority to make the credit policy.	Banks are different in delegating credit approval authority and the centralization decisions of the credit approval processes.	Responsiveness requires decentralized authority which has to be put into the risk management concern in banking.
Personal Control (Expatriate Control)	Expatriate control is widely adopted especially at the initial stage of penetration.	Reliance on the expatriate is changing with different speed of localisation.	It is difficult to see how the expatriate control limits the localisation, which implies all the cases are in the initial stage of expansion. Localisation which decreases the expatriate control still requires time.

In general, the three control measures enable banks to have strong integration, rather than responsiveness. Because branches have no legal identity, they are supposed to have high integration with the parent bank. The data show that the decisions along the three-control measures have generated integration.

On the integration side, the structure of the local branch integrates with the structure of the parent bank by product, function, and geographical control. The local branch normally does not have the authority to make credit policy decisions; rather it carries out the credit policy. Key positions in the local branch are normally assigned by the parent bank to control the operation and maintain the culture of the bank in the local market.

The data show details in the responsiveness that differentiates the ten cases in decisions along each control measure. The ten cases put different emphases on the structure design of the local branch. They make different decisions in terms of whether they need to set up a local head office. They have different approaches to centralising credit approval in the local market. They have different degrees of reliance on expatriate to deal with.

The difference in the control measure decisions implies why branch entry mode has been dominantly adopted. Branch entry mode provides the bank with a platform that has a higher integration with the parent bank.

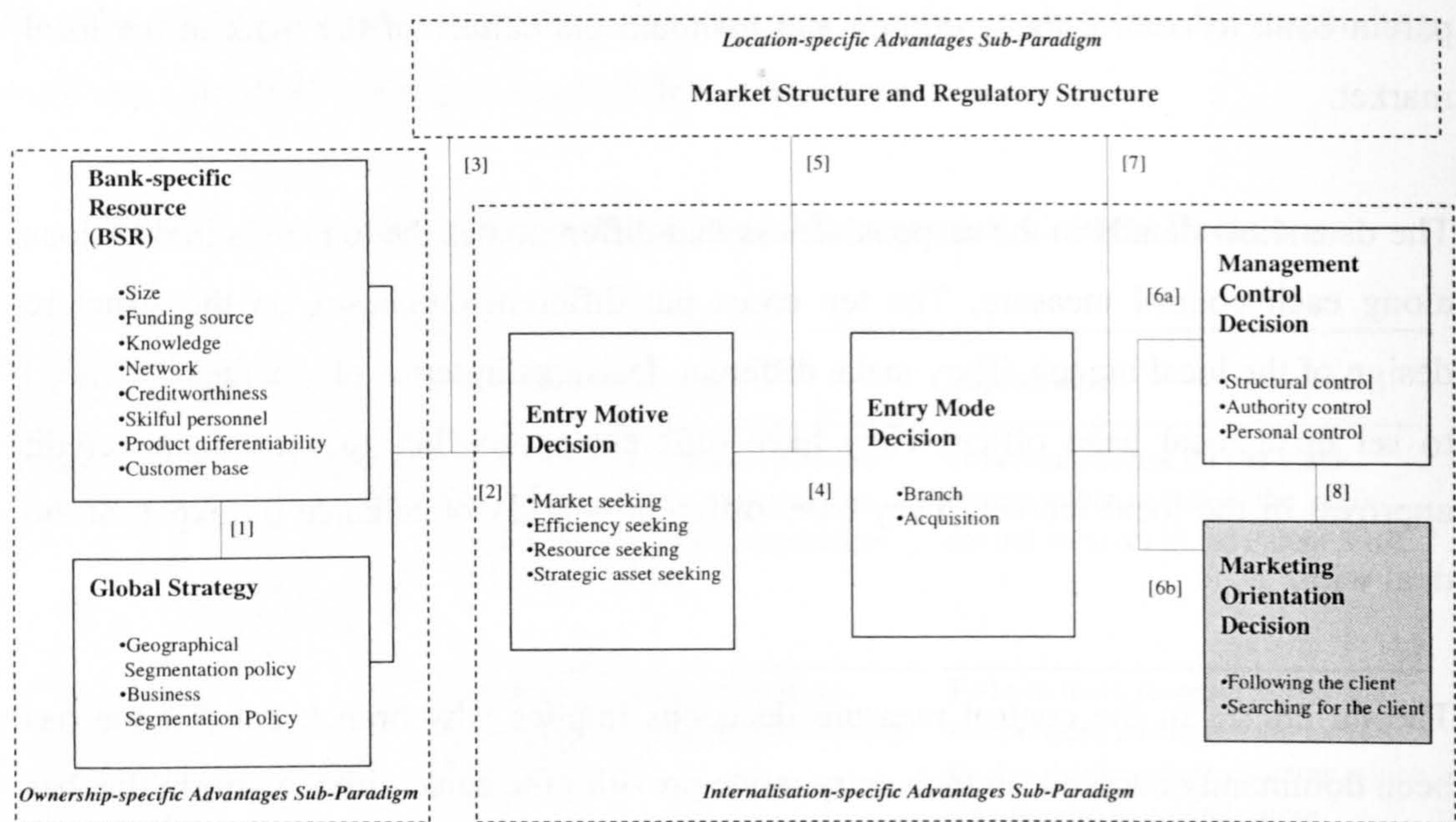
However, in satisfying the integration, the branch entry mode is found to be constrained to generate responsiveness to the local market. This may explain why some of the cases have tried to set up the local head office to enhance responsiveness, why some cases have empowered the local managers with more authority and thus reduce reliance on expatriates. The high integration and low responsiveness of management control decisions explain why alternative entry mode is considered, which is going to be discussed in Chapter 8.

7.5 Marketing Orientation Decisions

7.5.1 Existing and Potential Bank Clients

This section analyses the marketing orientation decisions of the ten cases. This focus of analysis is highlighted in Figure 7.5 according to the conceptual framework. Appendix D-4 provides further evidence of the analysis result from this section.

Figure 7. 5 Focus of Analysis – Marketing Orientation Decisions



In theory, both “following the client” and “searching for the client” are regarded as the marketing orientations of the service MNE. The clients being sought by the banks divide clearly into two groups. One is the existing clients, which are mostly foreign investment enterprises (FIEs), the other is the local firms, with which most banks do not yet do business.

The pursuit of the above-mentioned two groups of clients relies on different entry motives and tactics. For the existing clients, the ‘following the client’ marketing orientation is upheld, which is a more defensive approach to implement market-seeking motives because banks have to co-locate with their clients. For the local firms, the

“searching for the client” marketing orientation is upheld, which is a more offensive market-seeking motive because banks are targeting new customers in the local market.

Because of these differences, the two types of marketing orientation decisions are discussed separately in Sections 7.5.2 and Section 7.5.3. As a result of the analysis, the conclusion that the ten cases have made different marketing orientation decisions is supported. The following analysis aims to identify and explain how banks are both similar and different in their marketing orientation decisions along both of the two types of decision.

7.5.2 “Following the Client” Marketing Orientation

The meaning of the “following the client” marketing orientation refers to banks following their existing clients who invest in a specific market. In the context of the market in China, the existing clients refer to mainly those FIEs including the wholly foreign-owned enterprises and joint venture enterprises, as well as foreign individuals.

The data show that “following the client” marketing orientation represents a defensive expansion decision (Cho, 1985) that banks enter into a foreign market for fear of losing existing clients. The need to ‘follow’ the client becomes a compelling factor pushing a bank to move into a new market with its clients so that it can continue to meet their growing needs, thus preventing them from defecting to the competition (Gray and Gray, 1981).

The data reveal that the “following the client” marketing orientation is a typical implementation decision upheld by all ten cases. The existing client base is a crucial driving force for all ten cases for entry decisions. Furthermore, the existing clients from the same home market origin are normally targeted first. These first targeted clients constitute the main initial customer base of the banks in the new market.

However, despite the fact that all cases are holding the “following the client” marketing approach, the ten cases each show a different status of market expansion. As shown in Table 7.22, the role of the “following the client” marketing orientation is different in

each case depending on the status of market expansion.

For example, in Cases 2, 3, 4, 6, 7, 8, and 10 the “following the client” marketing approach is regarded as the need of the bank to maintain the existing clients. This is the traditional expression of the defensive nature of the motive. In Case 1, the “following the client” marketing approach is expressed as a way for the bank to “make a living”. In Case 5, besides the need for maintaining the existing clients, reducing challenges and risk is addressed as the reason behind the “following the client” motive decision. In Case 9, to co-locate geographically with the existing client area is addressed as the way to generate more business opportunities.

Table 7. 22 The ‘Following the Client’ Marketing Orientation

	Evidence of the 'Following the Client' Motive	Characteristics
Case 1	You know this group of customer is our base to <u>make a living</u> here. Even the regulations allow us to expand business to different customers or different products; to <u>serve the existing customers</u> has always been <u>very important</u> . (1.1/M-OPE); the main reason we follow the existing customers is to maintain our service.(1.8/S-DGM/MAR)	make a living and maintain the service
Case 2	One investment purpose is to <u>follow our German customers</u> to China especially those invested in the Shanghai area. This is why we serve our German corporate clients and their affiliates in China by corporate banking services.(2.2/S-COO); We <u>focus on the German companies invested in China</u> , and European companies who are clients of our bank in Europe.(2.2/S-MAR)	continue the services
Case 3	Like most other foreign banks here, we <u>follow</u> the joint marketing in organizing our activities, or you may call it cross-selling. Our activities are organized by following customers i.e. those corporates investing in China. (3.1/S-MAR); French banks are helping the French clients and Italian banks are helping the Italian clients with commercial banking. (3.2/S-GM)	help the enterprises from the home market
Case 4	Many people said the foreign banks are threatening the local Chinese banks. I don't agree with this point, because foreign banks always <u>follow</u> the customers from the home origin first. It is impossible for a foreign bank to quickly and completely localize.(4.2/M-ADM)	serve existing customers first
Case 5	I know the difficulties for promoting the non-Japanese business. We need to apply the credit quota from our Parent Bank. But it is <u>very difficult</u> to really understand and analyze the background, risk and business of the potential local customers. It requires effort to convince the Parent Bank to allocate credit limits to these customers.(5.2/S-DGM/OPE)	reduce challenges and risks

Table 7.22 Continues

	Evidence of the 'Following the Client' Motive	Characteristics
Case 6	We are coming here to <u>serve</u> because lots of North American clients come to China so we follow them. (6.4/S-GM); I feel our strategy has been always very clear. Maybe at different stage of development, the interpretation of strategy is different. Sometimes we follow the customer more closely sometimes not. But in general our strategy has been like this. (6.3/S-DGM/OPE)	serve existing clients
Case 7	In fact the main business in the branch is to <u>maintain</u> the corporate relationship. In other words, the corporates investing in China were actually the existing customers of the Parent Bank.(7.1/S-OPE); Those are clients that we have very strong relationship with back in the head office and also in other places".(7.3/S-COO)	maintain existing bank-client relations
Case 8	(The bank) is no exception; at this point it is the same as the other foreign banks, which is to <u>maintain</u> the existing relations with the global customers in the China market. Those customers have already set up relations with the Parent Bank head office, or with our regional office.(8.2/M-LM)	maintain existing bank-client relations
Case 9	It is true we are a UK bank and we still have some customers from the UK. But we cannot only rely on that kind of British customer to give us business. (9.1/S-GM); if the corporate geographical footprint matches our geographical footprint, you can then, naturally assume there are quite a lot of <u>business opportunities</u> .(9.3/S-MAR)	gain opportunities by co-locating with customers
Case 10	The <u>normal way</u> for foreign banks operating in China is very much focusing on those corporate banking businesses which are home-based FIEs. (10.2/S-MAR)	the normal way

The data show all the cases tend to follow the customers of same home market origin. This is because for the corporate lending business the subsidiary of FIE in the local market relies on the decisions of the head office in the home market. Compared with other clients, banks can easily obtain and assess information with the support of the parent bank located in the same home market of the FIE. This characteristic implies that possession of the existing customer base is one the driving forces behind the “following the client” decision. The characteristics of customer bases differ across cases.

First, the geographical scope of existing clients is different. As evidenced in Figure 7.6, three geographical scopes of the existing client are identified. They are the customer base of the same home market origin, the customer base of the same regional market, and the customer base in the global market.

For Cases 1, 2, 3, 6, 7, and 9, most clients they follow are from the same home market origin as well as those from the same regional market. For Cases 4 and 5, which are two Japanese banks, those of the same home market origin dominate their clients. For Cases 8 and 10, their client base is globally diversified.

Second, the meaning of “following” is interpreted differently across cases. As outlined in Figure 7.7, the “following the client” marketing orientation can be viewed in two ways. On the one side, banks tend to follow their clients in order to maintain the customers in the new market. On the other side, customers tend to approach the same bank they have been served by in the past. As a result of the customers following the client behaviour, the bank-client relationship is further strengthened.

Cases 2, 4, 5, and 6 tend to fall into one group: these banks are more defensive because they accommodate their services to the demands of the existing clients. These banks follow their clients because they have to do so. By contrast, Cases 1, 3, 7, 8, 9 and 10 tend to fall into another group: the existing customers are more willing to approach these banks in the local market.

Figure 7. 6 Existing Client Base for the “Following the Client” Marketing Orientation

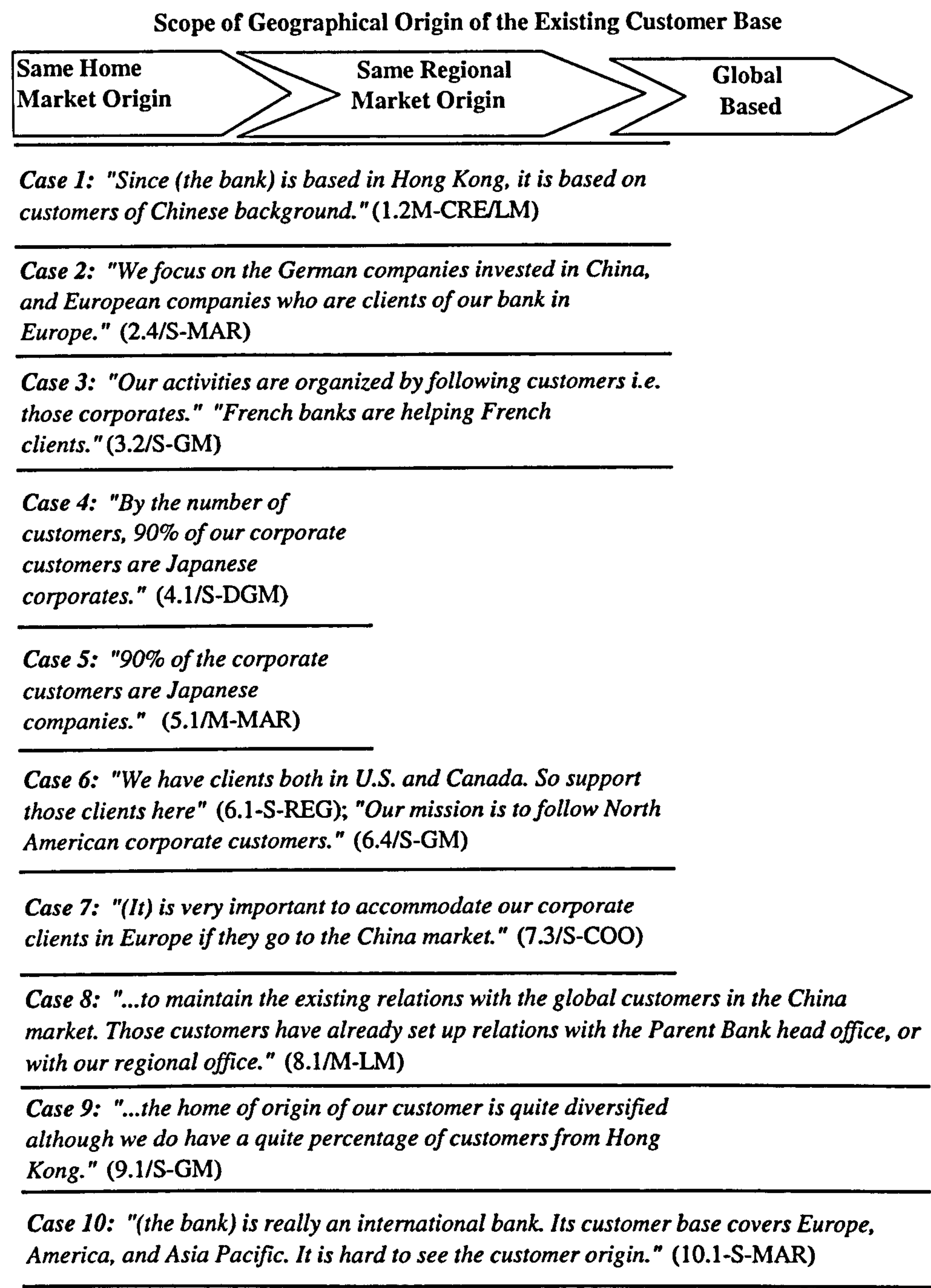
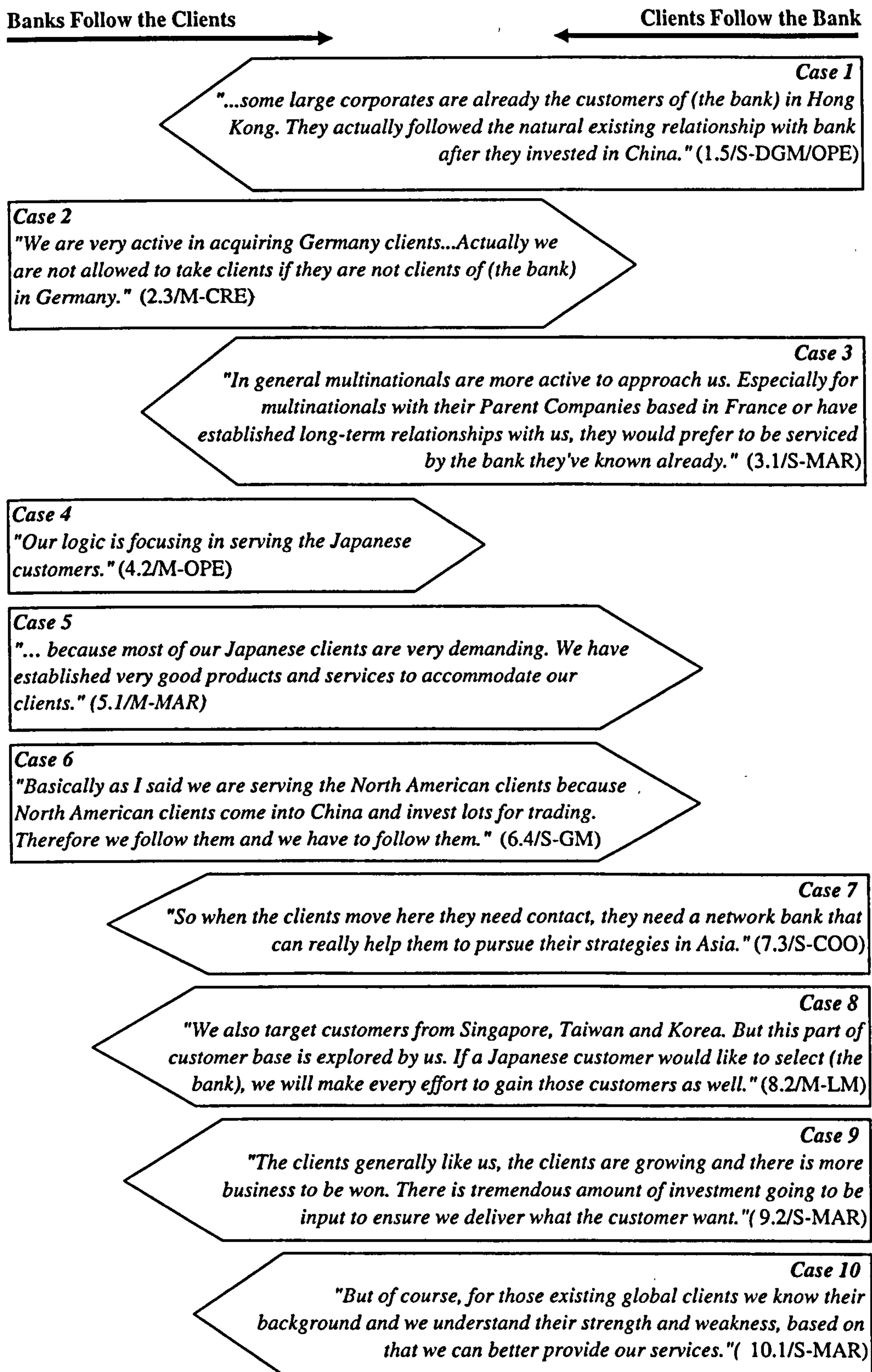


Figure 7.7 The “Following” and “Leading” the Client Behaviour



The different characteristics behind the “following the client” marketing orientation suggest, in fact, that banks are targeting different groups of clients. As a result, the competition between the banks from the same home market origin might be more severe because they all tend to target clients from the same home market. The competition between the banks of the same home market might not be evident for Cases 8 and 10 because their customer bases are quite diversified.

The above comparisons suggest the formation of the “following the client” marketing orientation not only relies on the possession of a customer base but also on the stable relationship with the clients. Banks that are able to retain the existing clients in a new market tend to be driven by the “following the client” marketing orientation. The evidence also suggests a combined effect of the bank both “following” and “leading” the clients in their entry to the new market. In reality, clients may also feel the fear of switching their bank because of the potential increased costs and risks.

7.5.3 “Searching for the Client” Marketing Orientation

The “searching for the client” marketing orientation refers to banks exploiting and promoting new markets. Banks enter into the market to seek not only the foreign invested enterprises or foreign individuals, but also to include the domestic clients, i.e., the local Chinese firms and individuals. Therefore, the “searching for the client” marketing orientation represents an offensive market-seeking decision. Banks are different in making “searching for the client” marketing orientation decisions.

In the literature of international marketing, marketing decisions relate to the product, pricing, promotion, and logistics. Managers make joint decisions on mixed policies in order to design an integrated marketing plan. The fundamental concern of marketing for international banking is no different from that for the domestic market.

The term marketing orientation, rather than marketing policy, is used because it captures the main strategic decisions for entry and expansion rather than the detailed practices. In the context of corporate lending, search for the clients concerns specific decisions in three main dimensions: i) who are the target corporate clients; ii) which industry’s credit

is allocated; and iii) what facilities lending is delivered.

The data suggest that banks decide the marketing orientations on condition that they are able to assess and mitigate the risks. Marketing orientations may cause banks to take risks that banks are not able to mitigate. Or, they may also cause banks to be over cautious which results in less sustainability in future competition.

The data show the ten cases are not substantially different in their choice of customer, industry and facilities in the context of corporate lending. All the cases make marketing orientation decisions based on the principle of balancing between risk and return. As a result of the analysis, the conclusion that banks make different marketing orientation decisions is not fully supported.

i) Customers for Credit Lending

One decision in marketing orientation concerns who the corporate customers should be. In Section 7.2, the analysis on the entry motive decisions, in particular the market seeking motive, has shown that both corporate and individual can be the new customers that drive banks to enter into a new market. The analysis in the marketing orientation concerns the risk and returns assessment and explains how a corporate client can be identified and targeted under the conditions in which banks are able to mitigate the risks.

The first part of the analysis focuses on how existing customers are identified and risks are mitigated. For “following the client” marketing orientation, marketing orientations are made to maintain and expand the existing corporate clients. It is common that banks have usually established a relationship with financial institutions before they entered the market. In terms of non-financial institutions, the existing client targets are those FIEs in China.

The data suggest that the existing customers are normally identified through the referral of the parent bank. Parent bank referrals provide a lower cost of marketing and better quality information to assess risk. In practice, the credit risk is mitigated by requiring

the guarantee of repayment issued by the Parent Company of the FIE in the local market.

As summarised in Table 7.23, the data show that referral is widely adopted as the way to identify the existing clients across all cases. Also, most cases adopt guarantees as the way to mitigate risk. Case 7 is an exception in that the loans are securitised in order to mitigate the risk. In Case 3 the data are not available.

Table 7. 23 Identifying the Existing Clients and Mitigating the Risks

	Identify Customer thought Parent Bank Referral	Mitigate Risk through Parent Company Guarantee
Case 1	By <u>referral</u> , it means a customer served by the Parent Bank already. When this customer invested in China, the Parent Bank introduced it to our branch. (1.1/M-OPE)	In facing the country risk of China, in most cases, we require <u>guarantee</u> from the Parent Company for lending to its subsidiary companies in China ...The lending department of our Parent Bank will deal with relative guarantee procedures to help us.(1.3/S-DGM/OPE)
Case 2	Normally the Parent Bank in Germany <u>refers</u> these customers to the Branch. You can say a majority of them are referred.(2.2/S-COO)	Usually, for German parent companies setting up a subsidiary in China, we are providing finance to them against the Parent <u>guarantee</u> until the subsidiary is good enough to sort of do the credit on a clean basis. In many cases we have the guarantee for many years because companies take a long time until they break even. (2.3/M-CRE)
Case 3	The objective is the same, which is to develop the bank-client relationship including in the Chinese market. Sometimes the clients are <u>referred</u> or sometimes clients are developed by our own marketing efforts.(3.2/S-GM)	n/a
Case 4	For some big customers, more often the Parent Bank will maintain and chase their development. The Parent Bank obtained the intention of their investment in China. Once customers make investment, the Parent Bank will <u>refer</u> them to the local branch like us. (4.2/M-OPE)	Normally we required a guarantee. For a newly established firm, we will ask for a <u>guarantee</u> unless it is extremely good. If a firm has invested in China for many years, we may require lower standard guarantee. (4.3/M-MAR)
Case 5	...if they are multinationals we basically do the business based on the <u>referral</u> from the overseas branch. If they are Japanese clients, we of course have to count on the background so we need to refer to the overseas Japanese branches. (5.1/M-MAR)	Basically loans with <u>guarantee</u> are our first preference not only for Japanese companies but also multinationals. Those big companies do not wish to issue guarantees. In this case we just count on the background, the credit criteria of the big group.(5.1/M-MAR)

Table 7.23 continues

	Identify Customer through Parent Bank Referral	Mitigate Risk through Parent Company Guarantee
Case 6	Slowly and now we see lot of opportunities have been <u>referred</u> to us through the head office.(6.1/S-REG)	In most of cases we require the Parent <u>guarantee</u> . That will solve our risk concern of those clients of our home origin doing business here. Very often the client come to us say they are going to venture with a Chinese partner, can you lend money to them. I would say I do not know this partner, you know them and you should lend money to them.(6.1/S-REG)
Case 7	You will see over 70% of corporate customers are <u>referral</u> if they are the European customers. In fact the main business in the branch is to maintain the corporate relationship.(7.1/S-OPE)	After we lend to the customer, we not hold the asset, rather we sell it, similar to the securitization. In other word, the owner of the loan is not (the bank).(7.1/S-OPE)
Case 8	For all these customer <u>referral</u> , I think it is the most important part that we rely on our heard quarter or the branch network for the support.(8.1/S-MAR)	You are right it is easier if we can get <u>guarantee</u> from the head quarters of the foreign institutions here. (8.1/S-MAR)
Case 9	It is not right to assume that if this customer is <u>referred</u> then we do not need to do the risk assessment by our local part.(9.1/S-GM)	We ask the <u>guarantee</u> from the parent company to cover the risk of the subsidiaries of the multinational companies; it is the nature of such kind of business segment.(9.4/M-CRE)
Case 10	we do not put focused effort on the <u>referral</u> customer. The referral usually will be done centrally. Through internal channel we get the potential customer name list for our staff to call...(10.1/S-MAR)	FIE can get finance mainly from foreign banks because they can get finance against the corporate <u>guarantee</u> only.(10.2/S-GM)

The second part of the analysis focuses on the target of new local corporates. For the “searching for the client” marketing orientation, marketing orientation decisions are made in order to know how new corporate clients can be identified and how risks can be mitigated. The new corporate clients are those local Chinese enterprises.

Unlike marketing for the existing clients where the local branch cannot rely on the parent bank, the local branches rely mainly on their own marketing abilities to identify new customers. Searching for the information is expensive. The channel to obtain the information is limited. The risk of default is high if the assessment of credit risk is not rigorous.

The entry motive, as discussed in Section 7.2.2, has shown the ten cases have different statuses in targeting the local Chinese corporate clients. Case 6 has no intention of targeting the local corporate. Cases 2, 4, 5, and 7 are considering the orientations. Cases 1, 3, 8, 9, and 10 have already taken action. Despite the different motives, the data show universal agreement in terms of how to identify the new local corporates and mitigate the risks.

First, all cases tend to target the 1st tier enterprises. In doing so, the risk is lower. Since the local Chinese banks also target the 1st tier local enterprises, foreign banks do not have any advantages in such a competition. As a result of such decisions, the risks are lower but the return in targeting this segment is lower as well. The benefit for banks still targeting the local corporate is in setting up reputation or establishing a relationship first to generate cross-selling opportunities. Second, facing difficulties in conducting credit assessment is common to all the cases. Information for credit assessment is either not available or not transparent. Banks need to adapt to local credit culture as dominated by *Guanxi*.

As summarised in Table 7.24, enterprises are identified by their creditability which are categorised into high, medium and low risks. They are called the 1st tier clients (e.g., the top listed state-owned enterprises); the 2nd tier clients (e.g., the local best performing joint stock enterprises); and the 3rd tier clients (e.g., the local best performing private

firms) as well as local registered enterprises that have invested abroad.

The data show most cases tend to target the 1st tier enterprises. In addition, the local Chinese enterprises which have invested abroad are also preferred to those 2nd and 3rd tier enterprises. The explanation for each marketing orientation is presented case-by-case as follows.

Table 7. 24 Identifying the New Local Clients and Mitigating the Risks

	Potential Local Client Targets			
	Offshore Chinese Enterprises	1st Tier	2nd Tier	3rd Tier
Case 1		●		
Case 2	●			
Case 3	●	●	●	⊙
Case 4	●	●		
Case 5		●		
Case 6		no intention		
Case 7		●		
Case 8	●	●	●	⊙
Case 9		●		
Case 10	●	●	●	⊙

In Case 1, the deputy general manager (1.8/S-DGM/MAR) explained, “We only target the 1st tier firms. The 1st tier companies are those well known by the industry, by other banks and by the auditing firms.” However the problem of targeting the 1st tier enterprise is the low profitability. The same manager explained, “(Big firms) have many banks offering services to them. Usually big firms are demanding and have strong learning ability. We may not benefit from providing services to them. It might be helpful for establishing our image if we gained big firms, but it might not be profitable.”

In Case 2, targeting the local Chinese corporate is considered risky. As the general manager (2.1/S-GM) noted, “We have not many local corporate customers except the

Chinese banks. The risk of lending money to Chinese companies is higher than lending money to German companies.” The marketing manager (2.4/S-MAR) explained, *“But when you deal with the triple ‘A’ companies you have to watch your margin...when dealing with small companies, yes, you have to bear a bit higher risk...”* The same manager said, *“So far we do not have any local Chinese companies. There are two such companies, which are German-related. They are registered in China but invest in Germany.”*

In Case 3, although corporate banking is one of the main businesses of the bank in China, it is challenging for the bank to identify the target. The general manager (3.2/S-GM) noted, *“For pure local Chinese enterprises, you have to spend lots of time on due diligence. I do not worry about the top names, for the top names we are ok. For the 2nd tier names, especially the private-owned companies, you need lots of due diligence because financials are not transparent, and even if they were transparent, financials are so difficult to assess.”* The marketing manager (3.1/S-MAR) added, *“Chinese corporates start making investments abroad, for some cross-border service. We may provide some value-added information.”*

In terms of challenges, the marketing manager (3.1/S-MAR) noted, *“Chinese local corporate are served by many Chinese local banks. A foreign bank can offer them far less than Chinese local banks can offer them.”* The same manager commented, *“... If I want to gain Chinese corporate, I must have competitive conditions. Although we have cases that certain Chinese corporates preferred our service to the local banks, we know that success relies on the relationship really.”*

In Case 4, the bank selects the specific type of local Chinese corporate. As the operations manager (4.2/M-OPE) explained, *“No matter how competition changes, in the long term, we target the good names. We won’t target the SMEs because we don’t understand them and we have no intention of understanding them.”* Another group of customers are those Chinese local enterprises investing overseas. The deputy general manager (4.1/S-DGM) noted, *“We have a large network in the overseas market, therefore, we can benefit from that development trend in this respect. We can provide*

our services to this group of customers.”

In Case 5, the bank also targets the very good names. As the credit manager (5.3/M-CRE) noted, *“For the moment, we are focusing on those with good creditability, 100% state-owned enterprises and those famous enterprises. We will give them first consideration. Other than those well-known Chinese enterprises, we do not feel safe to offer credit; maybe we will do it in the future. We need to do it slowly and accumulate experience.”* The marketing manager (5.1/M-MAR) explained, *“The problem is that each local company is already too strong, I mean the 1st tier companies, although we do business with them, the margin is very low relative to the risk. So we target those excellent companies in the 2nd or 3rd tier.”*

In Case 6, targeting any kind of local corporate is considered risky. As the marketing manager (6.2/M-MAR) explained, *“Talking about developing the local Chinese corporate, I should say it is a very tough route. Nobody would like to do the SMEs of China.... For larger-sized local Chinese enterprises, it could be more difficult. First of all, we do not have an advantage in the RMB business compared with the local banks. Second, when we propose large-sized enterprises, the financial data does not look good enough to get approval from our head office.”*

In Case 7, lending to the local corporate and only to the 1st tier corporate is for setting up the relationship for cross-selling opportunities. The chief country officer (7.3/S-COO) explained, *“I don’t think foreign banks are particularly good at providing credit to the local corporate ... Foreign banks may start businesses from credit lending in order to set up business relationship first and then to introduce more products to them.”*

The operation manager (7.1/S-OPE) explained further, *“Every local Chinese enterprise has its own uncertainties. Sometimes, it is very difficult to understand the shareholders’ background and relationship. It is not easy to know the final decision maker or the real guarantor. This is why at the initial stage, the so-called LLCs (large local corporates), are targeted.”*

In Case 8, the bank did not judge risk by the ownership of the local corporate. As the marketing manager (8.1/S-MAR) noted, *“... But it is not much more difficult in terms of process dealing with the local corporate. It is just that you have to go through all this analysis. If it is within our acceptable risk criteria, it is easy. Of course if it is marginal, we never process it.”*

In Case 9, the credit manager (9.4/M-CRE) commented, *“More or less like the other foreign banks, we target the best 1st tier local Chinese companies and the private Chinese companies could be the last to be considered. We may target the 1st tier because usually these companies enjoy government support to minimise the risk and also they are the big groups. We also target the listed companies because their finances are more transparent.”* The marketing manager (9.2/S-MAR) indicated that, *“The biggest risk for doing business with the purely local corporate is risk assessment. There is no secret. People really need to understand and get a good view of the creditworthiness of the local corporate.”*

In Case 10, the risk for deals with the local Chinese bank is considered. The marketing manager (10.1/S-MAR) noted, *“It could be challenging to lend to local Chinese enterprises. For (the bank), it is relatively easy because historically we have done trade finance for many years. For trade finance clients are actually those SOEs. We have lots of business experience no matter whether it is for large or small local enterprises... One of our potential businesses is to serve the Chinese clients overseas.”* The general manager (10.2/S-GM) highlighted the risks side, *“If you are going to operate in China you definitely need to bank with those local companies. You cannot compete with the local Chinese banks getting these companies. On the other hand, a lot of those companies have problems in terms of information, accounts, and the legal system.”*

ii) Industries for Credit Lending

In relation to customer selection, another decision in the marketing orientation concerns to which industry credit should be allocated. From the risk-return perspective, over concentrating the credit to particular industries would expose banks to risks not within its control. But a too much diversified industry portfolio may increase the cost of

searching industry information for the credit assessment.

The data show a universal pattern of industry concentration for credit lending across cases. As summarised in Table 7.25 the results confirm the aggregated data discussed in Chapter 2 that most foreign banks concentrate their credit lending to the manufacturing industries.

In relation to the analysis in Section 7.5.2 that all cases tend to target the FIE, the industry concentration mirrors the same concentration of the FIEs. As a result, the data show foreign banks are targeting a group of enterprises concentrated in the manufacturing industry, although within the manufacturing sector, most cases diversify loans across different sectors.

In Cases 1, 9, and 10, property industries are also covered, especially in Case 1, where the property industry is the main lending industry for the bank. Cases 1 and 10 have the home market in Hong Kong SAR, where both banks in the home market are strong in the real estate industry. Case 9 is also deeply involved in the market in Hong Kong SAR.

The financial sector is not as particularly addressed as the industry for credit lending. As discussed in Chapter 3, foreign banks are not permitted to conduct business in an integrated way. For a long time, they were not allowed to take deposits in local currency. This may partially explain why business within the local financial sector is limited.

Table 7. 25 Industries Concentration for Lending

Evidence of Industry Concentration of Credit Lending		Concentration Focus			
		Manufacturing	Financial	Property	Service
Case 1	Obviously the <u>property industry</u> is important. Most others are in the <u>manufacturing industry</u> . Some industries are very policy-oriented, therefore we did not get involved ... One reason for concentrating on a certain industry is because of the experience we have... We also have established operational procedures for doing business in these sectors.(1.6/M-LM)	■	■	■	
Case 2	The German companies that have bigger investment in the area are normally <u>production companies and manufacturing companies</u> . So this is why our business focuses on this.(2.2/S-COO)	■			
Case 3	We have a special department and people to deal with corporate clients in <u>industries such petro-chemical, shipping, or aeronautics</u> and so on and so forth. Using the elimination way, we intentionally do not get involved in certain industries such as property or catering.(3.1/S-MAR)	■			
Case 4	Since our main customers are Japanese enterprises, they focus on <u>manufacturing</u> that is also our concentration of lending. We also lend to the distribution sector, trade. The concentration depends on the customer needs.(4.1/S-DGM)	■			
Case 5	We do not limit our lending to any particular industries. We also do the <u>real estate finance</u> depending on the risk. We do not focus on any particular industries. But eventually, most of the portfolio maybe focuses on the <u>manufacturing sector</u> . This is because most of the Japanese companies are in <u>manufacturing</u> and also most of the multinational companies have huge finance demands while the retail or other service sectors don't need money. (1.5/M-MAR)	■	■	■	

Table 7.25 continues

Evidence of Industry Concentration of Credit Lending		Concentration Focus			
		Manufacturing	Financial	Property	Service
Case 6	Corporate lending is not our primary business. Our primary business is our <u>capital market and trade finance</u> . Most of our customers are <u>financial institutions</u> . Corporate lending is not the core activity. So we do not have a huge portfolio or industry concentration on it. (6.1/S-REG)		not applicable		
Case 7	For (the bank) the current focus is <u>manufacturing</u> although we do have other names in telecommunication, in consultancy, and in other areas... <u>Manufacturing</u> may include a lot of industries across which (the bank) does not have limitations on industries. (7.2/S-MAR)	■			
Case 8	n/a		n/a		
Case 9	Our portfolio is to cover the <u>manufacturing industry</u> . Businessmen in manufacturing really want to do something there in China. We do have some trading companies and SMEs as our customers... For the property industry, we have a separate analysing centre to work on it. (9.1/S-GM)	■		■	
Case 10	We concentrate on <u>manufacturing</u> including shipping, aircraft, and mining industry, whatever. I think it is a quite diversified allocation in different industries but focusing on property and manufacturing. The industry concentration is quite unique in China. (10.2/S-GM)	■		■	

iii) Facilities for Credit Lending

The third aspect of the marketing orientations concerns the specific facilities that banks adopt for the credit lending business. The lending facilities are defined by different attributes, such as loan size, lending duration, and the lending purposes.

The data have shown the extremely similar decisions banks make in choosing the lending facilities based on the risk and return concerned. As summarised in Table 7.26 the similarities are identified in the following four dimensions. Each case may focus on one or more kind of facility with different degrees of their focus approximately denoted.

First, all cases prefer launching the short-term loan rather than the long-term loan because the uncertainties from risks tend to be lower for the former. Loans for financing trade business and for use as working capital are preferred for the project because the former choices are less complicated for the bank to assess the risk and to manage the processes of payment.

Second, in general, trade finance has been widely focused at the beginning of the entry into the market. Trade finance enables most cases to generate demand from the clients. Despite the development in each is different, trade financing may still be the dominant type of lending facility for some banks, but not for others.

Third, from a long-term point of view, corporate lending is not necessarily the product area that banks would like to target first. Banks target corporate lending product either because traditionally they are good at corporate lending, or they do so in order to open up the market. Banks tend to move from the interest-based services to the non-interest related services in China.

Fourth, the response of the banker shows they do not fully agree that they have concentrated on certain types of lending facilities. They prefer to diversify their facilities. If there is any tendency towards concentration, the reason does not lie in the banks' strategic decisions, but is dependent on the customers' needs.

Table 7. 26 Facilities Concentration for Lending

	Concentration of Lending Facilities	Lending Purposes			
		Working Capital	Trade Finance	Project Finance	Fixed Assets
Case 1	If you categorise <u>real estate lending</u> as loans for asset purchasing, clearly we have lending to the real estate with highest share. Then <u>working capital loan</u> and <u>project finance</u> are the second and third positions of the whole loan portfolio. Trade finance is important but it accounts for relatively less share in the loan portfolio.(1.5/S-DGM/OPE)	■	■	—	■
Case 2	We have fewer loans for <u>project financing</u> than for <u>working capital</u> . We also have <u>trade financing</u> and loans for asset purchasing. This loan portfolio did not change over time. <u>Project financing</u> is always less important than working capital and fixed asset purchasing. Again it is because of risk concern.(2.1/S-GM)	■	■	—	■
Case 3	...we have international <u>trade financing</u> and national trade financing. Compared with local Chinese banks, we may not have as much lending quota as they have, but our products are more flexible...(3.1/S-MAR)		■		
Case 4	At the beginning the lending to the <u>fixed asset</u> was a big proportion. As the Japanese enterprise started the operation in China, the proportion of lending to <u>working capital</u> increased.(4.3/M-MAR)	■			—
Case 5	...lending for <u>working capital</u> is preferable because it is short-term and very easy to monitor, while long-term loan is very difficult to monitor, once you grant the facility, it is very difficult to withdraw... <u>Project finance</u> is increasing, which accounts for 10%, half maybe short-term and 40% long-term.(5.1/M-MAR)	■		—	

Table 7.26 continues

	Concentration of Lending Facilities	Lending Purposes			
		Working Capital	Trade Finance	Project Finance	Fixed Assets
Case 6	Because the portfolio is very limited in China, it is difficult to recognise which type of facility is preferred in terms of the purpose of lending. (6.2/M-MAR); if we do we would normally just do the short-term working capital lending to try to understand the loan. But long-term is much more difficult. The risk exposure is much higher. There is no such project financing any more... (6.4/S-GM)	(■)		(■)	
Case 7	I believe every bank has the concentration focus in this regard. The bulk part of the facility will be the working capital facility because with the <u>working capital</u> facility it is easier to control the risk.(7.2/S-MAR)	■			
Case 8	I feel normally banks will be concerned with loan purposes. We make sure the loans are used for the defined purpose. (8.2/M-LM)		n/a		
Case 9	I guess we do have concentration on corporate loans for certain types of facilities. Most of our loans are <u>working capital</u> loans. Also this is the safest way of using the money. We do have some medium term loans. When I am saying long-term loan it refers to a loan over one year. We feel a long-term loan is risky. (9.1/S-GM); <u>Trade finance</u> could account for 25% in volume relative to other facilities for other purposes. (9.2/S-MAR)	■	■		
Case 10	Trade services are the soundest products of (the bank). We have strong trade capabilities around the world... That is a perfect product to open the door to have new customers...when comparing <u>trade</u> with other facilities for <u>working capital</u> or <u>project finance</u> or <u>fixed asset</u> .. (10.1/S-MAR)	—	■	—	—

7.5.4 Summary

The analysis in this section focuses on decisions regarding marketing orientations in the corporate lending context. The two marketing orientation decisions are examined across cases, i.e., the “following the client” marketing orientation and the “searching for the client” marketing orientation. As summarised in Table 7.27, the data show both universally similar decisions and differences in the marketing orientation decisions across the ten cases.

Table 7. 27 Implications of Similar Marketing Orientation Decisions

Marketing Orientations	Similarities	Implications
"Following the Client " Marketing Orientation	Existing clients of different scope of geographical market origin are followed.	The different characteristics of the existing customers base indicate if the "following the client" marketing orientation is the dominant orientation, bank may have different sustainability in the competition.
	Existing clients of different closeness of relations with the bank are followed.	
"Searching for the Client" Marketing Orientation under the Risk-Return Balance	Customers: Identify the existing clients based on referral and mitigate risks through loan guarantee	Banks compete for a narrowed business areas in terms of client target, industry target and the facilities. As a result, the competition is more within the foreign banks than between the foreign banks and the local Chinese banks.
	Customers: Identify the new local clients based on relation, mitigating risks through concentrating on the first tier clients	
	Industries: Concentrate on the manufacturing industry and diversify across sectors within the manufacturing industry. The lending industry is chosen based on the need of the clients and the risk assessment ability.	
	Lending Facilities: Concentrate on the lending for less risky purposes such as trade finance and working capital	

First, regarding the “following the client” marketing orientation, it is true that all banks have made the “following the client” marketing orientations. In general, the “following the client” marketing decision *per se* does not differentiate the ten cases.

However, the scope of the geographical origin of the existing clients is different. In addition, the relationship with the existing customer is potentially different. As a result, the formation of the “following the client” marketing decisions is based on existing customer bases with different characteristics. Because of such differences, the sustainability is different for all banks only if the “following the client” is the only marketing orientation.

The implication of the resources that banks rely on to have the “following the client” marketing orientations is that the bank resource of customer bases and the existing bank-client relationships are important for the initial entry into the market. With different resources, banks may have different sustainability if the “following the client” marketing orientation is the only decisions made across all the banks.

Second, regarding the “searching for the client” marketing orientations, the data show that the potential local market attracts all the banks. However, the realised strategic decisions are shown to be different in two main dimensions. The data show that in practice the behaviour under the “searching for the client” marketing orientation of the ten cases tends to converge.

In terms of client targets, all the cases tend to have similar principles for targeting the existing clients through referral by the parent banks. By requiring a guarantee from the Parent Company of the direct borrowers, the risks are mitigated. All the cases, if they wish to target the local corporates, tend to target the 1st tier local corporates. By doing so, the credit risks are reduced. But in the meantime because the clients are over targeted, the competition is severe and the margins lower.

In terms of the industry targeted for credit lending, the data show all the cases tend to concentrate their lending on the manufacturing industry. The industry knowledge,

information and experience accumulated in certain cases make them confident in concentrating on lending in the property industry such as in Cases 1, 5, 9, and 10.

In terms of the lending facilities, the data show all the cases tend to give credit for the purpose of short-term loans and for purposes where the bank can relatively easily identify risks and manage the payment. As a result, working capital and trade financing are the major preferred lending facilities. Generally, most cases started from trade financing at the initial entry and financing for fixed assets. Banks developed with the participation of the FIEs in the local market. The lending facilities tend to shift the purpose lending from the use for the fixed assets purchasing to the use for working capital.

To diversify risk, banks tend not to allocate high credit concentration to any particular customers, industries, or facilities. The data show, however, that banks in the local market in all the cases can in practice only approach limited clients. It is difficult to conduct risk assessment if banks decide to target the local 2nd and 3rd tier corporate clients. Without experience and knowledge in certain industries, lending to a sector such as the property industry is not preferred in most cases. Also, the long-term control of loan payment is not favoured. The marketing orientation decisions confirm that knowledge of the local market is crucial for the bank to realise the “following” or “searching” of the client motives.

The implication of such homogeneous behaviours in the marketing orientations suggests that foreign banks have formulated the mixed marketing decision under the risk and return principle. All the cases tend not to take risks. As a result, the competition in the corporate lending business within the foreign banks is more severe than the competition between foreign and local banks.

7.6 Chapter Conclusions

In this chapter, strategic entry decisions are examined in four dimensions, i.e., the entry motive decision, the entry mode decision, the management control decision, and the marketing orientation decision. The analysis has tried to answer the first research

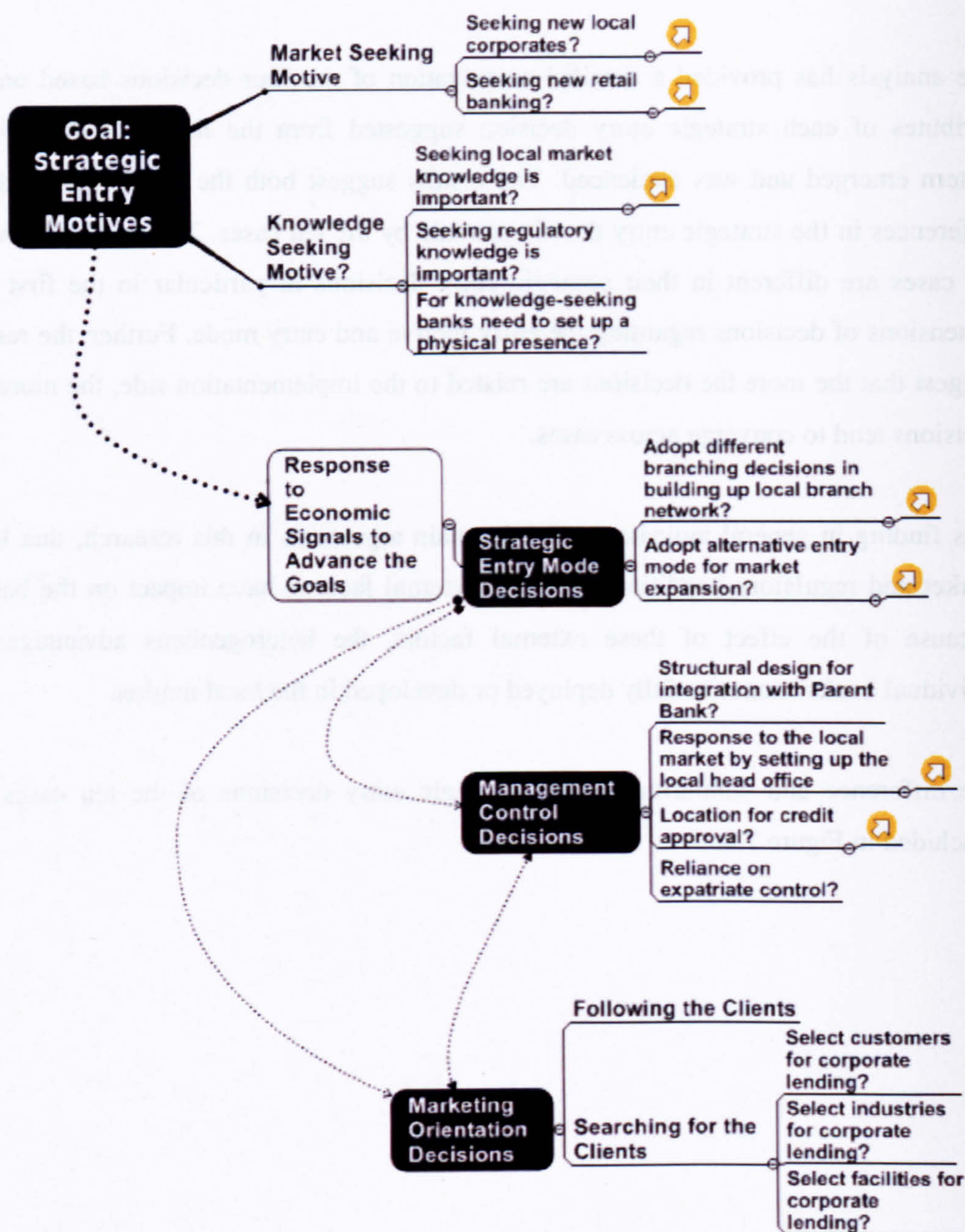
question, which is: *“Are the entry strategies of the multinational banks different in China?”*

The analysis has provided a detailed examination of the four decisions based on the attributes of each strategic entry decision suggested from the literature. A decision pattern emerged and was evidenced. The results suggest both the similarities and the differences in the strategic entry decisions made by the ten cases. The results show the ten cases are different in their strategic entry decisions in particular in the first two dimensions of decisions regarding the entry motive and entry mode. Further, the results suggest that the more the decisions are related to the implementation side, the more the decisions tend to converge across cases.

This finding in general indicate one of the main arguments in this research, that local market and regulatory conditions, the two external factors, have impact on the banks. Because of the effect of these external factors, the heterogeneous advantages of individual banks cannot be fully deployed or developed in the local market.

The difference and similarities in the strategic entry decisions of the ten cases are concluded in Figure 7.8

Figure 7.8 Summary of Different and Similar Strategic Entry Decisions



Note: Marked arrows denote the strategic decisions are different in that particular dimension across the ten cases.

According to Dunning (1988:7) two things are considered as firms' characteristics. "First, that firms have broadly similar goals; and second, that they respond to economic signals to advance these goals in a rational and consistent way." This statement is supported in this study. In comparison with decisions in the other three dimensions, the

entry motive decision, in particular the motive of targeting the local market, has differentiated the cases evidentially. The similarities and differences in the entry motives are the actual reasons behind the similarities or differences of decisions in other dimensions.

The ten cases all hold two key entry motives: market seeking and knowledge seeking. The market seeking motive differentiates the ten cases; banks make different decisions regarding whether they are going to target the local corporates for their lending business. Banks are substantially different in terms of whether they are going to target the local retail banking.

The differences in the entry motive subsequently influence the entry mode decisions. As a consequence, the ten cases differ in terms of how the branch entry mode should be decided with regard to detailed aspects which include the location, scale and the speed of branch expansion. Banks also have different decisions regarding whether an alternative entry mode – i.e., equity investment in the local commercial banks – should be adopted or not.

In the decisions made regarding the strategic management decisions, not unexpectedly, the ten cases tend to make similar decisions. The analysis is based on the integration-responsiveness framework. Regardless of the differences in the entry motive, the actual control decisions in the parent bank–local branch control context tend to converge. All cases appear to make similar decisions in order to integrate the local operation with the parent bank through structural control, authority control and expatriate control. The differences in using these measures to generate responsiveness to the local market are also identified, but the influence does not seem as strong as that which is generated for integration purposes through using these control measures.

On the decisions regarding the marketing orientations, extremely similar conduct in marketing orientations is found across the ten cases. All the banks have the “following the client” marketing orientation. In terms of the “searching for the client” marketing orientation, the realised decisions in the corporate lending business, which is the

traditional and dominant business conducted by all the cases, tend to converge. All the cases appear to make similar decisions regarding how to identify the customers, mitigate the risks, select the lending industries and focus on certain lending facilities. The differences in the marketing orientations are revealed to be insignificant.

Given that the emphasis is put on demonstrating the differences and similarities in the four dimensions of decisions, the explanations for the formation of those decisions are only partially analysed in this chapter. But a few streams of factors have been demonstrated to be crucial to explain the formation of the strategic entry decisions.

In terms of the differences in the entry decisions, in particular the entry motive and entry mode decisions, the data show bank specific resources are influential. Although all the cases have the “following the client” marketing orientation, they possess different customer bases of different scopes and of geographical origins, which may influence their entry mode and operational decisions. Knowledge resources are shown to be crucial. With respect to the entry mode decisions, each type of configuration of the branch decisions suggests different resource commitment to the local market.

In terms of the similarities in entry decisions, in particular the management control and marketing orientation decisions, the impact of market and regulation conditions is evidenced. The less developed market conditions and stringent regulatory conditions have potentially caused homogeneous conduct in the local market. Although banks’ decisions tend to converge, they show differences in their detailed practices, which might be crucial for changes of decision in the future. For example, although similar management control measures are adopted, the degree of control in each measure is different across banks.

The analysis in this chapter focused on the identified strategic entry decisions in four areas of decisions. The result has confirmed the differences in the strategic entry decisions, which are formed under the joint effect of bank specific resources, market conditions and regulatory factors. The explanations for the formation of the decisions are the focus of the analysis in Chapter 8.

Chapter 8 Explaining the Formation of Strategic Entry Decisions

8.1 Introduction

This chapter makes further comparisons across ten banks in order to explain the findings in Chapter 7. The analysis aims to answer the other two questions in this research: *“If the entry strategies of the multinational banks in China are different, why?”* and *“To what extent has regulation impacted the entry strategies of the multinational banks in China?”*

The cross-case comparisons have implied that strategic entry decisions are impacted by both the internal factors specific to individual banks and the external factors confronted by every individual bank in the local market. According to the conceptual framework the internal factors are viewed from two dimensions, namely, bank-specific resource (BSR) and global strategy. The external factors can be viewed from two dimensions, namely, market structure and regulatory structure.

In fact, internal factors and external factors interact, which means that impacts examined by the industry level data and the individual case data have to be considered together. For such a purpose, the patterns of strategic entry decisions are identified first. Section 8.2 provides the analysis by grouping the cases in order to identify the decision patterns. Section 8.3 analyses the potential impact by internal factors, i.e., the bank-specific resource and the global strategy. Section 8.4 focuses on the impact of regulatory structure on the formation of strategic entry decisions. Section 8.5 concludes the findings from the analysis.

8.2 Group Analysis

8.2.1 Identifying Bank Groups

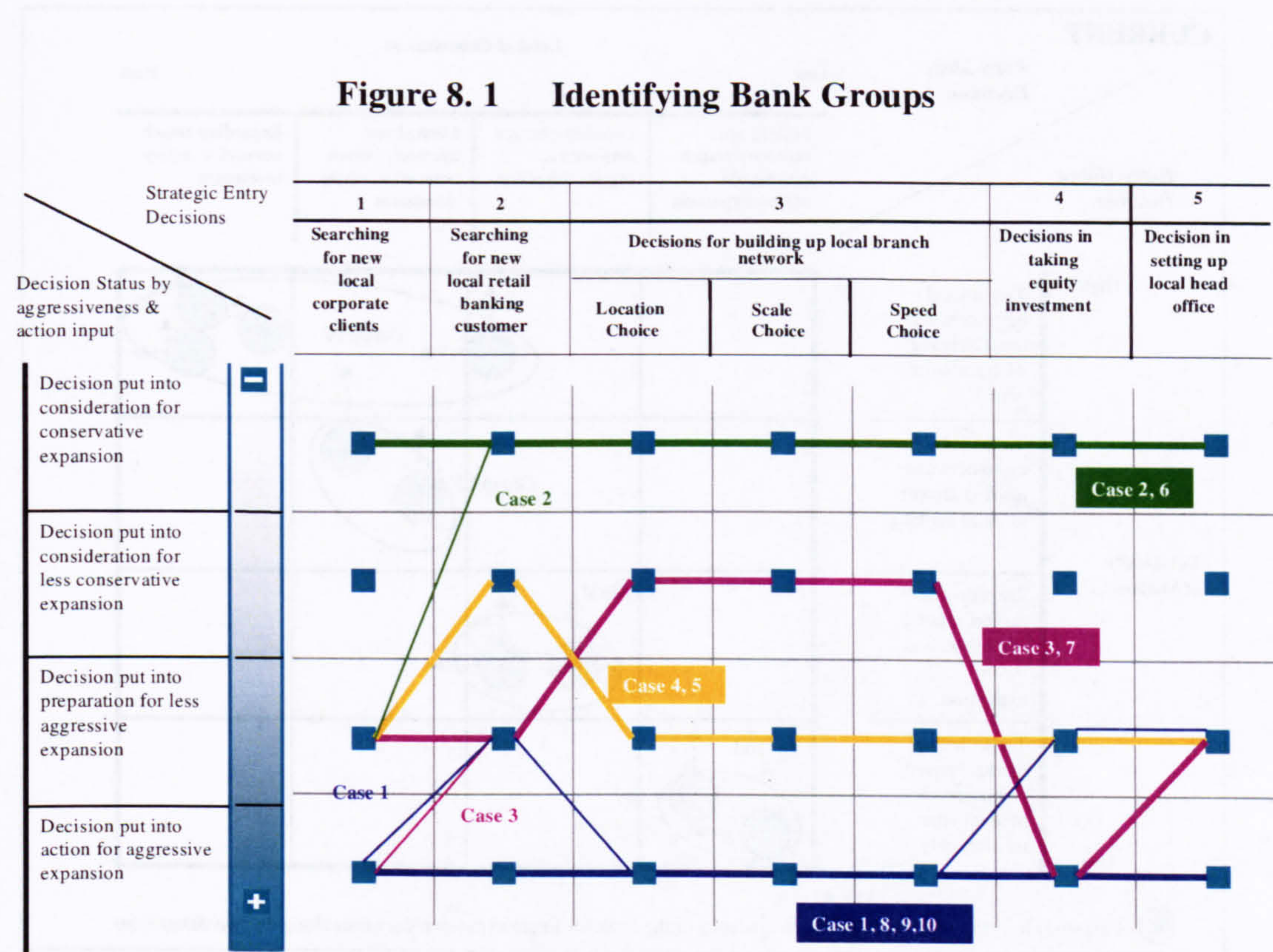
The purpose of analysing the cases by groups is to provide multiple patterns of strategic entry decisions. Through grouping the cases, it is not the behaviour of any particular firm that the theories are trying to explain and predict, but that of a group of banks, or of a representative (or average) bank of that group. The grouping analysis follows two steps.

The first step is to group the banks according to differences in their entry decisions. The comparative analysis in Chapter 7 has suggested the ten cases differ dramatically in five specific strategic entry decisions; these decisions are:

- i) The entry motive decision regarding whether or not local corporate banking is targeted;
- ii) The entry motive decision regarding whether or not the local retail banking segment is targeted;
- iii) The entry mode decision regarding the expansion of local branch network in terms of location, scale, and speed;
- iv) The entry mode decision regarding whether or not equity investment in the local commercial banks is made;
- v) The management control decision regarding whether or not a local head office is established.

In addition, four different statuses of decision emerged from the cross-case comparisons. These statuses are: decisions put into action, decisions put into preparation, decisions put into consideration, and no intention of make the decision. Correspondingly, four attitudes towards the market expansion are identified. These attitudes are: aggressive expansion, less aggressive expansion, less conservative expansion and very conservative expansion.

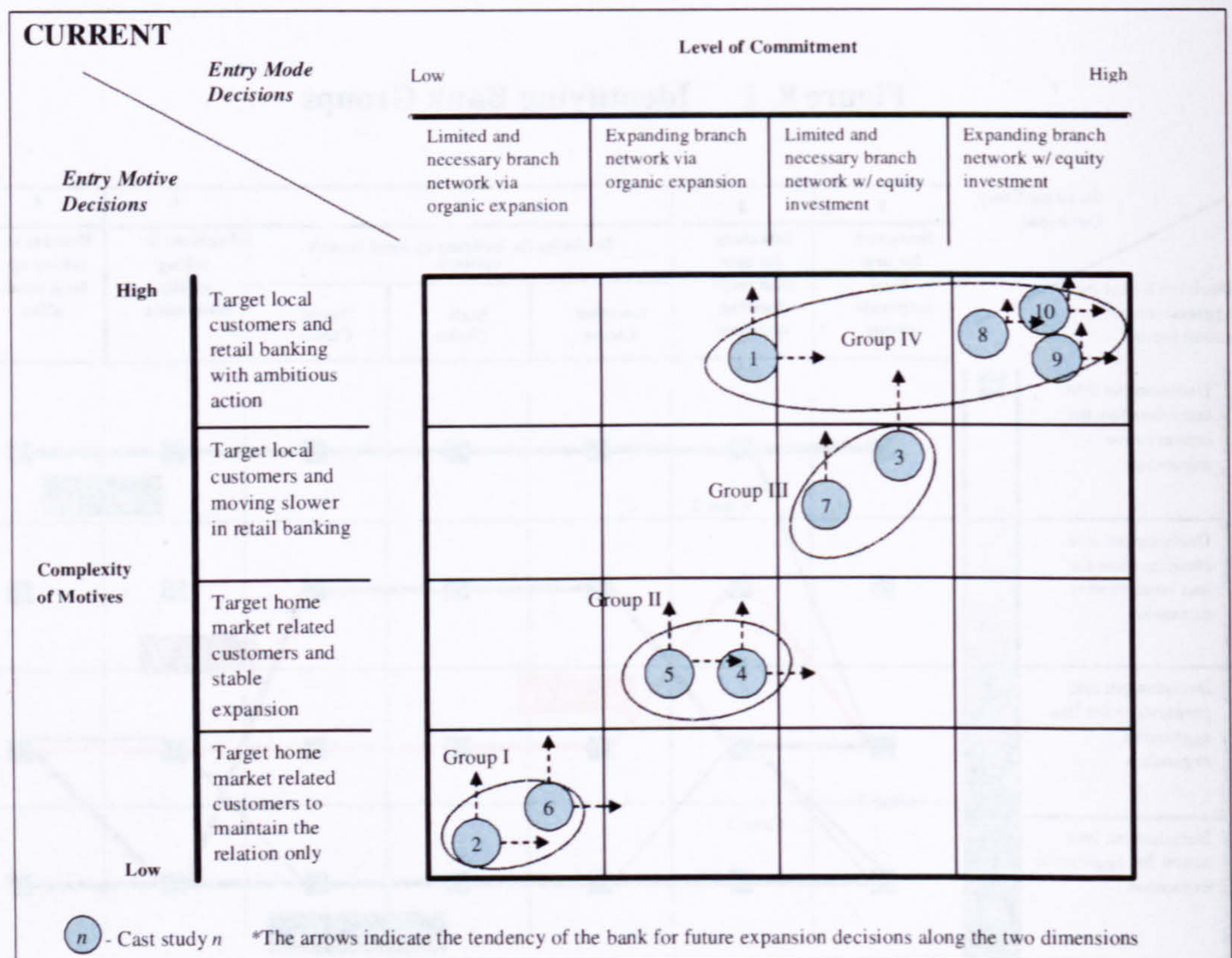
As shown in Figure 8.1, the horizontal dimension shows key decisions i.e., that the ten cases tend to make different choices. The vertical dimension shows four different positions based on decision statuses and attitudes of expansions. Each case is positioned according to decision status and attitudes of expansion regarding the key strategic decisions. Those cases that consistently made similar decisions are identified and grouped. Each group represents a unique combination of the decision choices that are believed to determine the whole pattern of strategic entry decisions.



As a result, four types of decision pattern are identified. The four decisions patterns are represented by Group (I) including Cases 2 and 6, Group (II) including Cases 4 and 5, Group (III) including Cases 3 and 7 and Group (IV) including Cases 1, 8, 9 and 10. In Cases 1, 2 and 3, the choices on single or particular dimensions are not completely in line with the choices of the other cases within the same group. However, since they have made similar choices in most dimensions, the grouping result remains.

The second step is to group the banks by focusing on the differences between the decision statuses. Two main strategic entry decisions, i.e., the entry motive decisions and the entry mode decisions, form two dimensions in the matrix as shown in Figure 8.2.

Figure 8.2 Grouping Cases by Strategic Entry Motive and Mode Constructs



The dimension of entry mode decision forms the horizontal dimension in the matrix. The branching decisions and the equity investment decisions are considered together, which generates different levels of banks' commitment to the local market ranging from a low level of commitment to a high level.

The dimension of entry motive decision forms the vertical dimension in the matrix. The market seeking motive and the marketing orientation decisions are considered together, which generates a different complexity of entry motive decisions ranging from a lower level of complexity to a higher level of complexity.

Each dimension is stratified into four interrelated strategic choices available for each case. Accordingly, the strategic entry decision made by each bank is positioned in the four by four matrices. As a result, four groups of bank emerge, confirming the same bank groups as identified in the first step of grouping analysis.

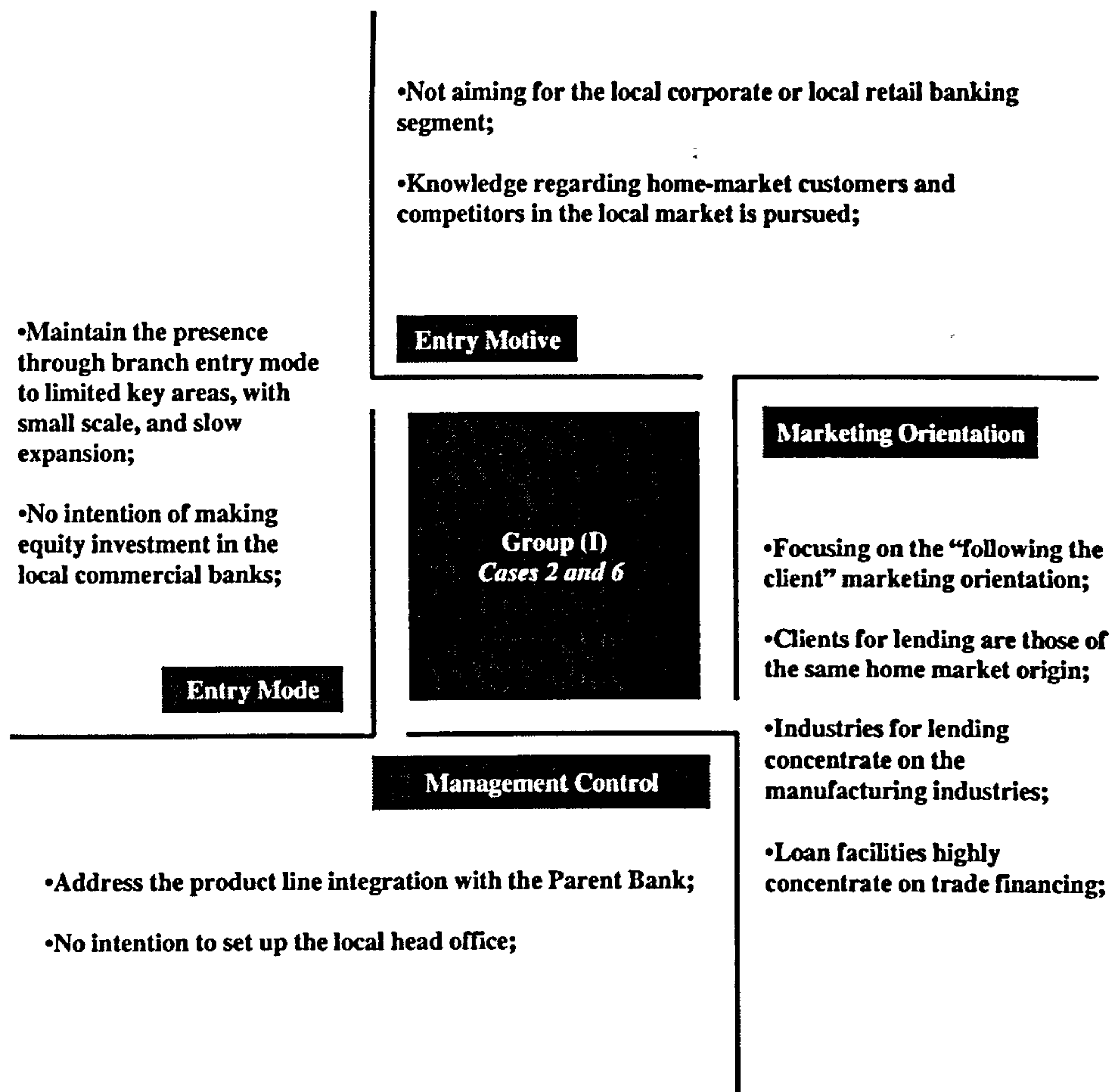
Denoted by the arrowed lines, the matrix also shows the potential behavioural tendency of each case to move from one status to another according to the evidence discussed in Chapter 7. By highlighting the potential movement between decision statuses, the matrix marked as “current” has tried to capture not only the overall picture based on the decisions at present, but also to indicate the reasons for the potential changes of the groups.

The results prove entry motive and entry mode are related in each case. The more complex the entry motives, the more demanding the commitment to the local market, hence the higher level of entry mode choices. Before the analysis of different scenarios of changes of grouping result, the decision pattern of each group is reviewed. Each pattern is discussed by using four specific entry decisions according to the definition of entry strategy in this study.

8.2.2 Characteristics of Patterns of Strategic Entry Decisions

As shown in Figure 8.3, Cases 2 and 6 are viewed in Group (I). Both banks have similar entry motives. Targeting the local corporates is not the strategic intention. Both banks do not intend to tap into the local retail banking. Compared with expanding market share, making profit is more important. Both banks are motivated to provide services to the home-based customers, thus knowledge regarding the home-based customers is more important. In comparison, seeking local knowledge is relatively less important except for the information regarding competitors.

Figure 8.3 Characteristics of Entry Decisions of Group (I)



Both banks maintain the limited number of necessary branches in the local market. In fact, in Case 2, the bank plans to close one of the branches because it did not make a profit. However, because of the cost of closure and the concern for the image of the bank, the bank has kept the branch. In Case 6, the bank has maintained two branches for a long time; the third branch in Shanghai was only opened in recent years. Both banks do not consider it necessary to make equity investment in the local commercial banks because their scale of business is not considered large enough. However, the potential to tap into the local market is open to them because they target the non-banking financial sectors. In Case 2, the parent bank has invested in the insurance sector. In Case 6 the bank has invested in the fund management sector. In both areas, they are pioneers.

Management control decisions in both banks emphasise structural control to be product line-based. Although geographically, line managers report to the branch manager, and to the regional or global level, product and function reporting lines are the dominating lines of control. Because of the importance of the integration with the head office, branch managers in both banks are less powerful or authorised. Since the need for local responsiveness is relatively low, both banks decided not to set up a local head office in China. The current scale of business does not require a centralised decision to be made locally.

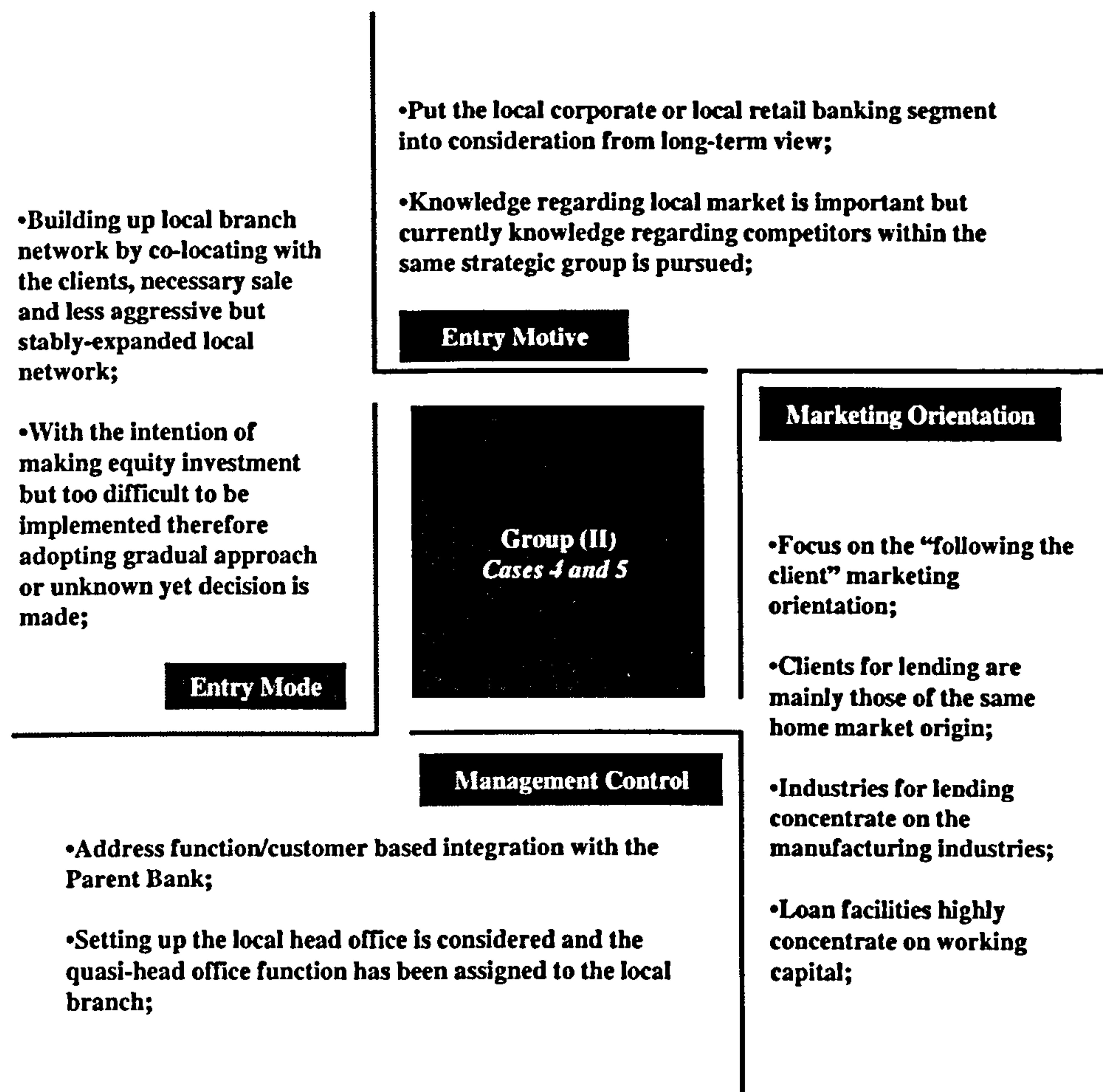
The “following the client” marketing orientation is the dominant approach to developing the business in the local market. In corporate lending, both banks focus on the client from the home market. The product is also selected for the needs of specific groups of customers. In both cases, corporate lending is not considered to be the area where profit can be generated. Rather the fee-based services are targeted and are expected to expand in the future.

As shown in Figure 8.4, Cases 4 and 5 are viewed in Group (II). These two Japanese banks do not deny their intention to tap into the local Chinese clients’ market, but they have just started to consider it and the strategy for the local market is viewed as a long-term plan. Japanese customers constitute the main customer base for both banks. Therefore, besides seeking local knowledge from the long-term strategic point of view, both banks give more attention to knowledge about competitors, i.e., Japanese banks in the local market.

The two banks have the same number of branches co-located closely with Japanese clients in the local market. Both banks keep expanding the branches because business with the Japanese clients is expanding. They select the location similarly and expand branches less aggressively but still with necessary scale and speed. They have not made equity investment into the local commercial banks. An incremental development is preferred in Case 4. To serve their Japanese clients, the bank set up strategic alliances with local financial institutions which their existing network cannot currently cover. In Case 5, making equity investment is a different strategy. It is not considered because it

does not necessarily help with serving the Japanese customers. For political reasons, as implicitly indicated by the bank managers, it is difficult for both banks to find strategic partners.

Figure 8. 4 Characteristics of Entry Decisions of Group (II)



Both banks have the international department of their head office responsible for the operation in the market in China. The structure has been designed to be customer-based. Both banks have a similar function design including a Japanese customer and a non-Japanese customer department in the local market. There is no local head office in China. But in Case 5, there is a team working in China to represent the head office which can be regarded as a quasi-local head office in practice.

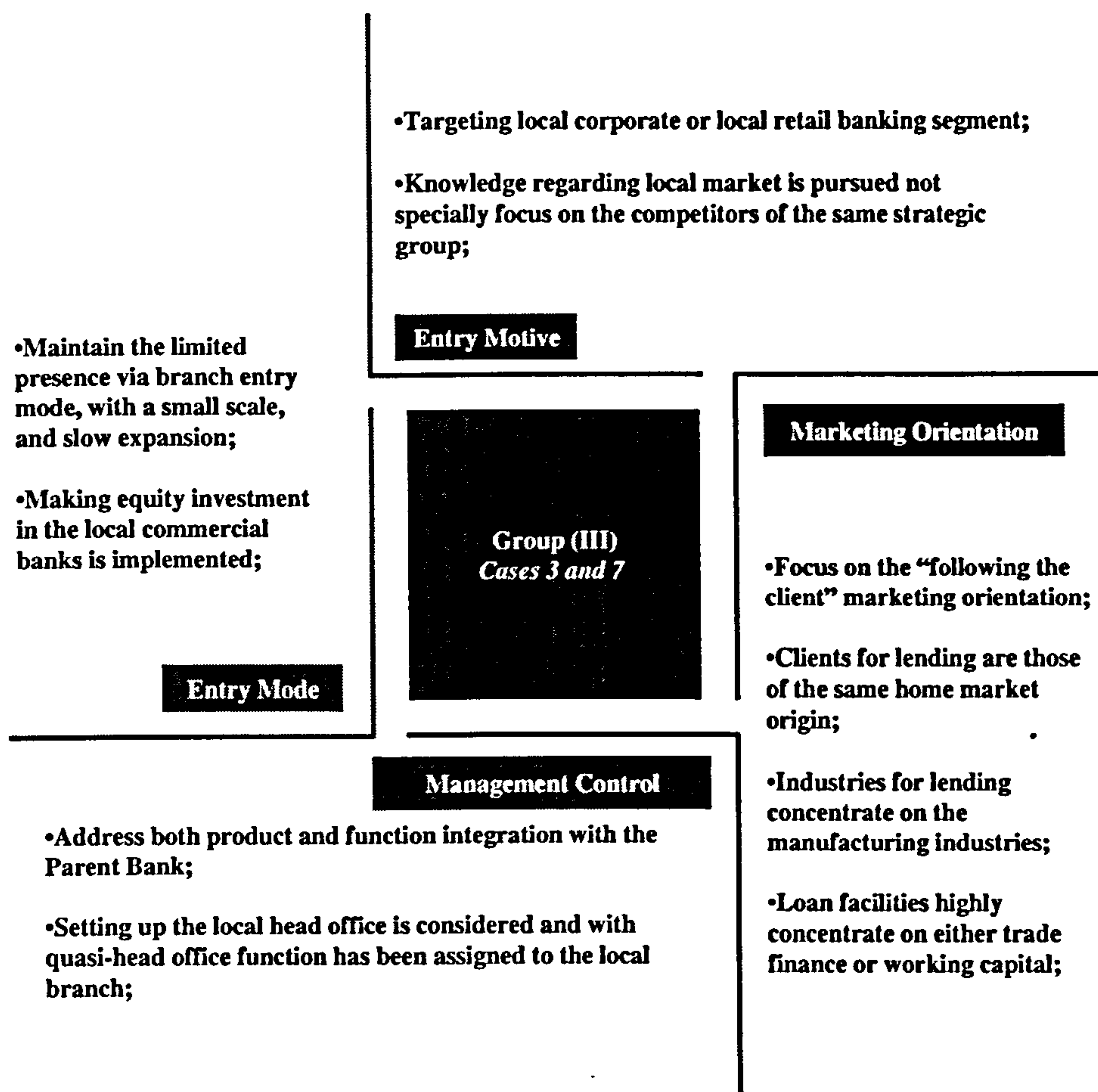
By the “following the client” marketing orientation, lending facilities are highly concentrated on Japanese clients. Both banks concentrate on the industries that their Japanese customers concentrate on in the local market. Lending for working capital is the main lending facilities for these customers. The “following the client” marketing orientation is the only approach at the moment for developing the business. The banks do adopt the “searching for the client” approach to develop the business, but such an approach is limited to the Japanese clients, that have developed business particularly quickly in the local market.

As shown in Figure 8.5, Cases 3 and 7 are viewed in Group (III). The two European banks target both the local corporate banking, and potentially retail banking in the future. Seeking knowledge about the local market is shown in both cases. Both banks have expressed that they are not confident they know the market well enough especially when the business environment has changed rapidly in recent years.

Both banks do not rely on the branch as the only entry vehicle of operation. Branches are established with limited scale and not with an aggressive speed of expansion. In order to expand the local market, an alternative entry mode is adopted. Both banks have made equity investment in the local commercial banks. In Case 3, a local city commercial bank is selected. The bank expects to learn how to conduct retail business through the partnership. In Case 4, a joint stock commercial bank is selected. The bank expects to start private banking, which has been proved to be very successful in the other emerging markets.

The management control mechanisms address the product-based and function-based structural control. Both banks tend to address the integration given that the size of the business in the local market is not large. However, both banks express their intention and need to decentralise the authority to the local market. Although it has not set up a local head office, Case 3 has established a wholly foreign-owned enterprise bank in 2003. Case 7 has also set up the CEO structure to centralise the decision in the local market in order to enhance responsiveness to the changing market and regulatory conditions.

Figure 8.5 Characteristics of Entry Decisions of Group (III)

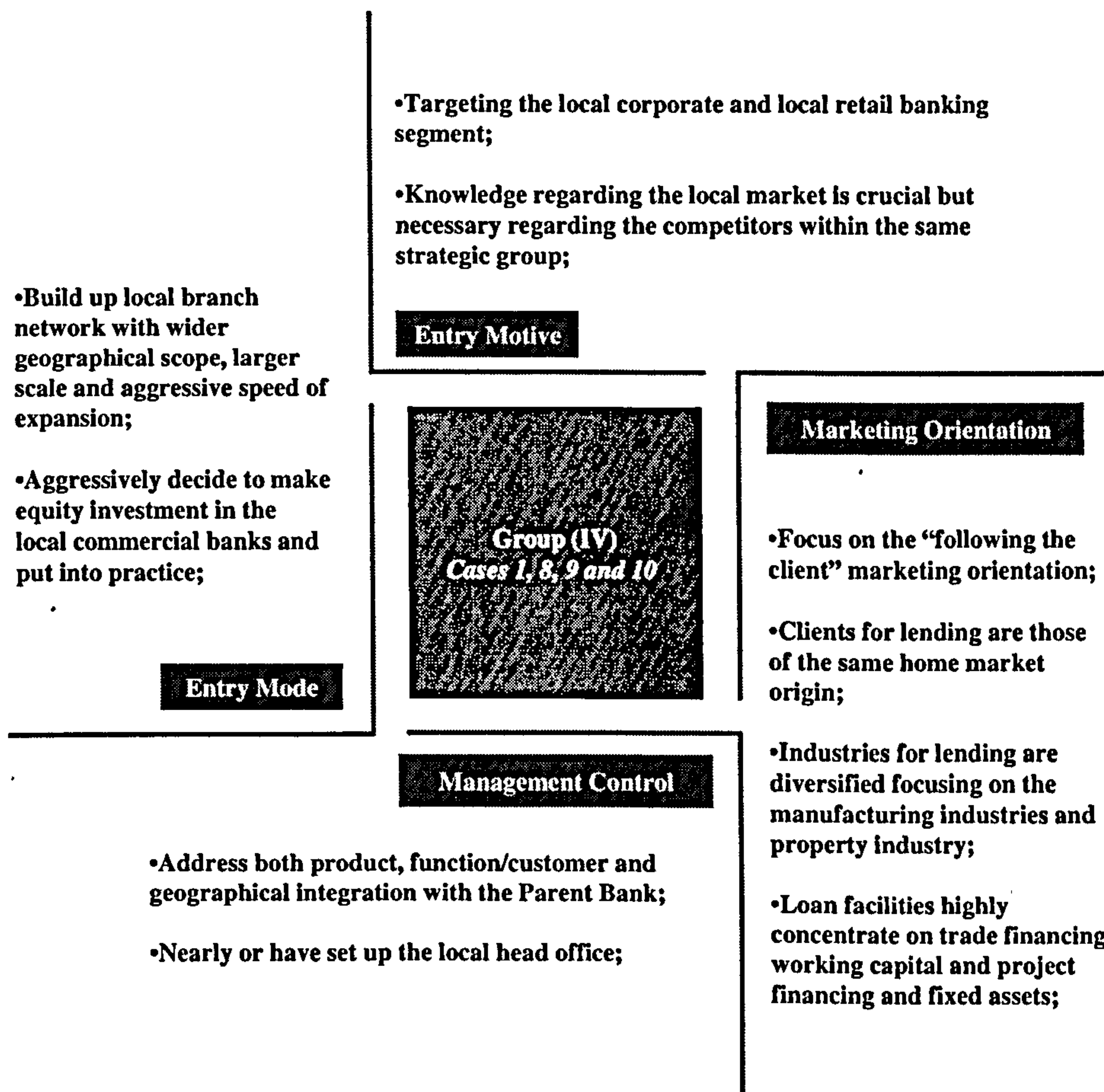


Both banks have mentioned that the “following the client” approach is obviously an important way to develop business, but that it is not the only way. “Searching for the client” is going to be the focus in the future. In terms of corporate lending, customers of the same home origin account for a high but decreasing percentage. In Case 3, the bank is strong in project finance and corporate banking. In Case 7, corporate lending is sold in the secondary market so that the bank does not bear the credit risk. The lending is concentrated in the industry on which clients of the same home market origin have concentrated.

As shown in Figure 8.6, Cases 1, 8, 9 and 10 are viewed in Group (IV). Targeting the local market in all dimensions is the common objective of this group of banks. Banks express the need for local knowledge because knowledge of the existing customer is not

enough to support their market-seeking purpose. Knowledge regarding the local market is crucial but necessary with respect to competitors and practices.

Figure 8. 6 Characteristics of Entry Decisions of Group (IV)



The branch is obviously one of the main entry modes adopted by these banks. All banks have expanded and will expand branch networks in an aggressive way. The decision to expand branches has been made earlier and maintained over years, which shows a long-term and early commitment to the Chinese market of these banks. In parallel with branch expansion, making equity investment into the local commercial banks is one of the important entry modes for these banks. In Case 7, the bank has invested in a large listed local commercial bank. In Case 9, the bank targets newly established city commercial banks. In Case 10, the bank has made equity investment in a large local commercial bank. Although Case 1 has not reached any deal, it has been always active in taking the equity investment approach of expansion.

The structural design is based on product and function, but also highlights the geographical responsiveness of these banks. In Cases 8, 9 and 10, local head offices are established to achieve more centralised decisions in the local market. In Case 1, geographical control is achieved by a specific department set up for the local market which could be regarded as a local head office because of the close geographical distance of the bank to the local market.

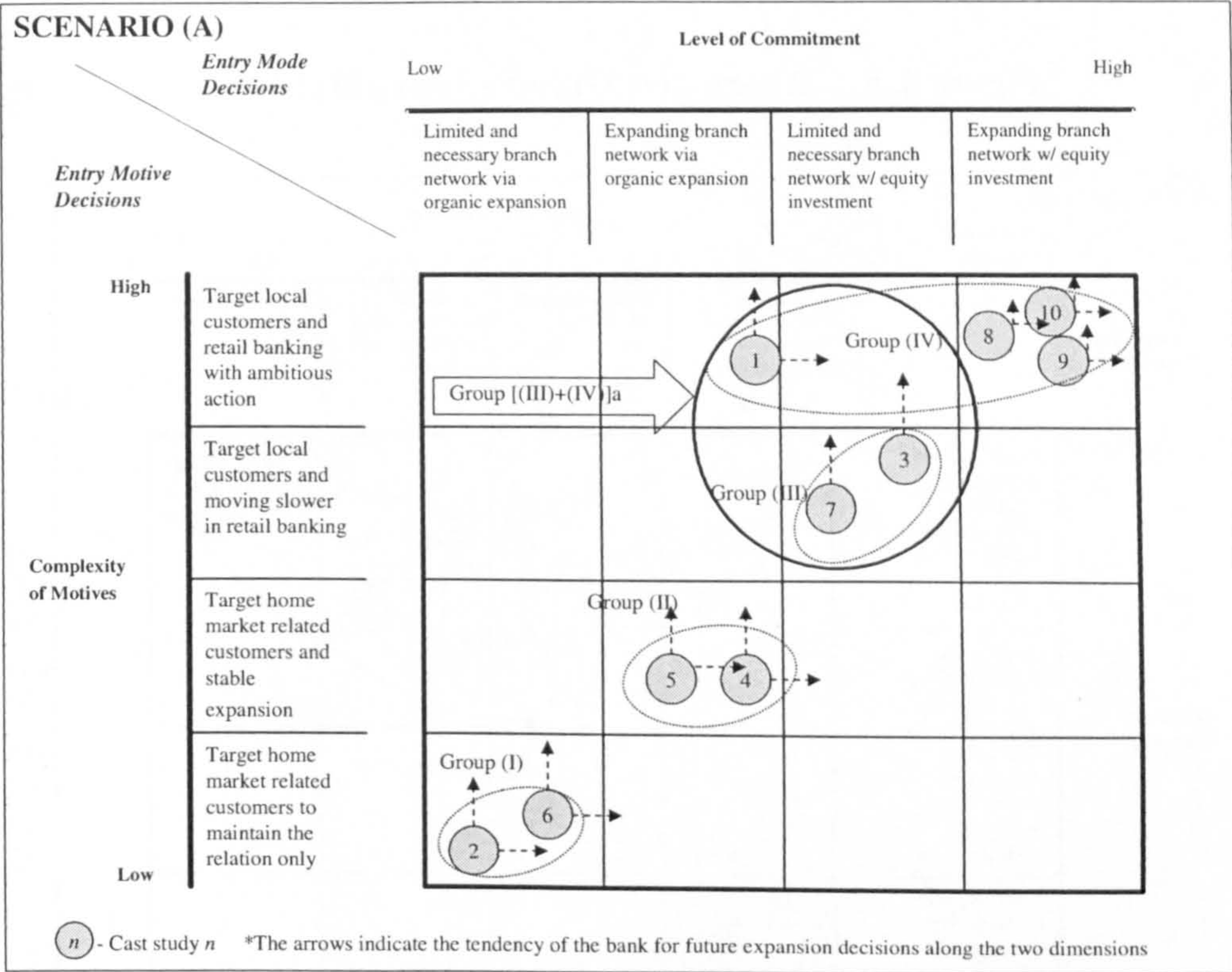
These banks all have the “following the client” marketing orientation. But they carry out the “searching for the client” approach in a more aggressive way when compared with all the other groups. In terms of cooperation lending, banks do not deny the opportunities if local Chinese corporates can be targeted. The lending concentration by industry tends to be more diversified especially in Cases 8, 9 and 10.

8.2.3 Alternative Grouping Results

The above grouping analysis emphasises similarities of cases within the same group and minimises their existing differences. In fact, even within the same group, cases may show some differences among themselves. In order to know whether alternative grouping results may occur, this part of the analysis highlights the differences of each decision within the same groups to see whether the differences may generate alternative grouping results.

Scenario (A) is shown in Figure 8.7. Two groups of cases may converge, denoted as ‘Group [(III) + Group (IV)]a’ based on the potential changing tendency of Case 1 in Group (IV), and the potential changing tendency of Cases 3 and 7 in Group (III). Case 1 has developed its local network aggressively. It is also actively looking for the opportunity to make equity investment, which makes it possible to converge more to the other three cases in Group (IV). But since it develops late in making equity investment, it might first merge with the cases in Group (III) on the condition that Cases 3 and 7 will expand with the clear motive of tapping into the retail banking segment.

Figure 8. 7 Alternative Group - Scenario (A)

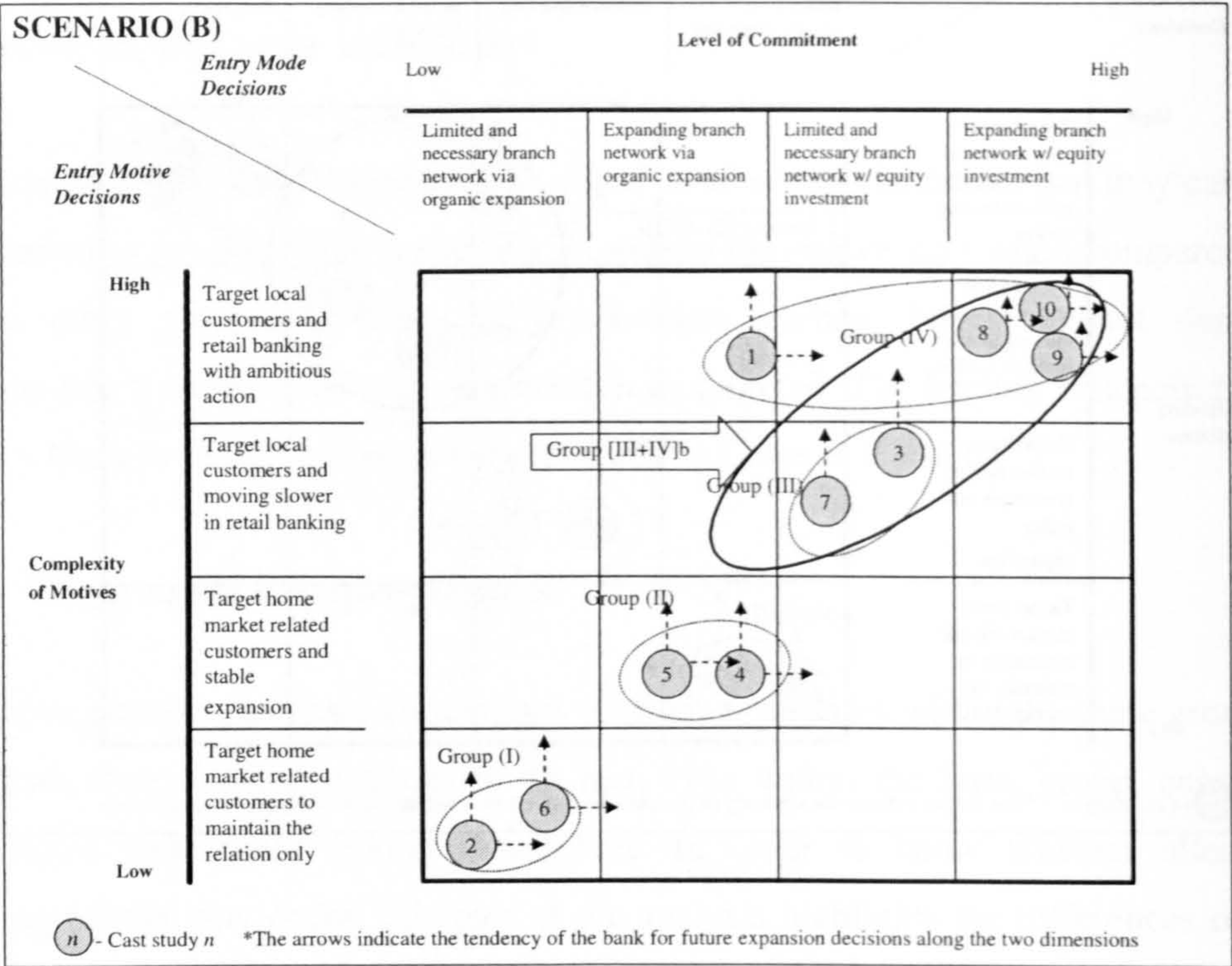


The occurrence of scenario (A) depends on how sensitive the development is if Case 1 behaves similarly to the cases which have made equity investment already. It also depends on whether the retail banking segment is important to Cases 3 and 7 as it shows in Case 1. At the current stage, Case 1 has put much effort into making equity investment but it is difficult to make a deal. In parallel, both Cases 3 and 7 have adopted a more conservative view and the initial stage of equity investment without clear movement. They may maintain the conservative attitude of branching. Both aspects of behaviour may diverge the two cases from Case 1. Therefore, the occurrence of scenario (A) cannot be fully supported.

Scenario (B) is shown in Figure 8.8. Two groups may converge, denoted as '[Group (III) + Group (IV)]b' based on the potential changing tendency of Cases 3 and 7 in Group (III) and potential changing tendency of Cases 8, 9, and 10 in Group (IV). Case 3 and 7 have a relatively smaller scale of local branch network and are both at the earlier stage

of equity investment. But both are targeting retail banking which is similar to the motive of most cases in Group (IV).

Figure 8. 8 Alternative Group - Scenario (B)

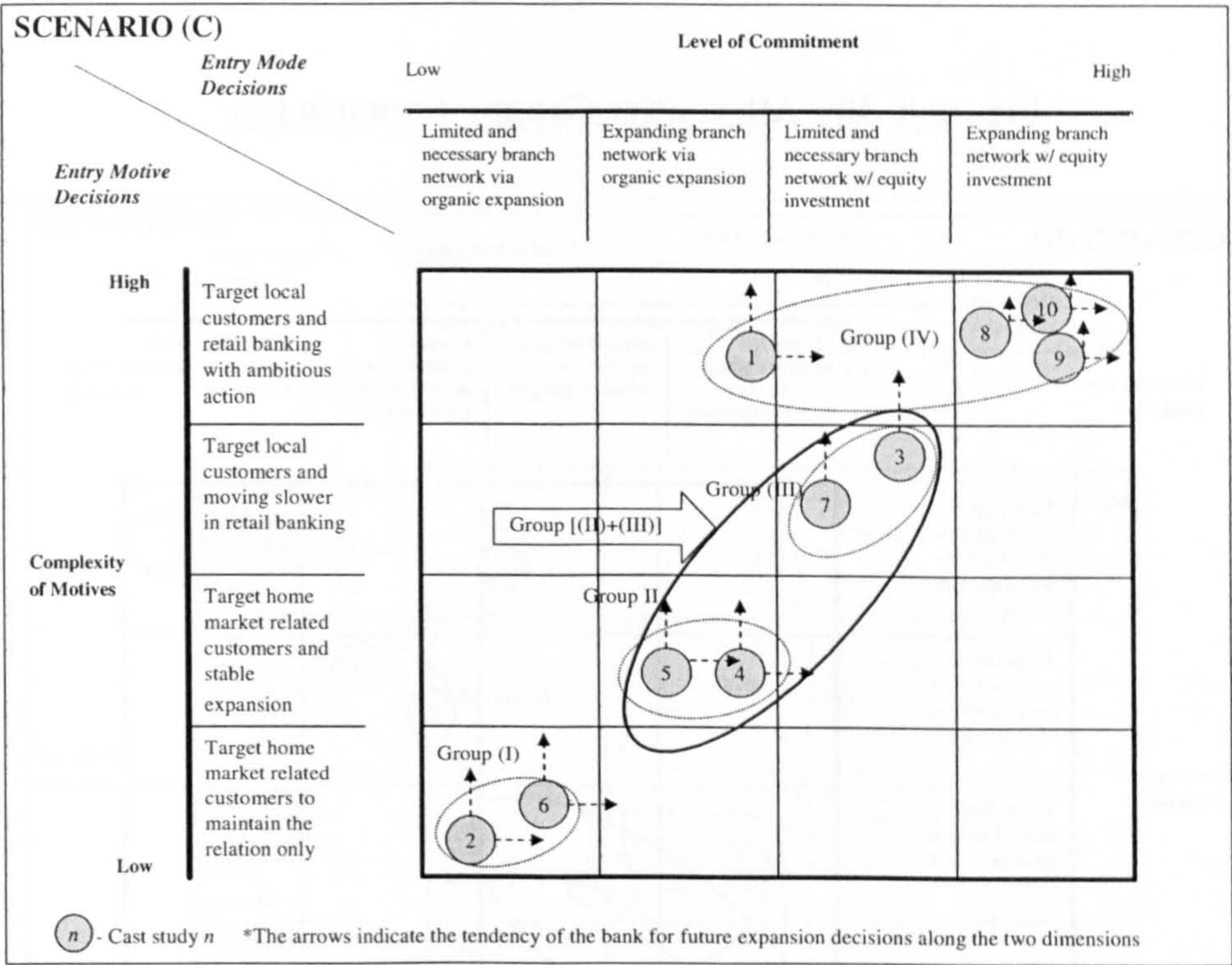


The occurrence of scenario (B) relies on the condition that Cases 3 and 7 change from the current conservative attitude of branch expansion to an aggressive expansion. It is possible that Cases 3 and 7 may converge to Case 9 in Group (IV) given all the three cases have chosen either the joint stock commercial bank or city commercial bank as their local partner for the equity investment. By contrast, Cases 8 and 10 become outstanding as a separate group because each has committed to substantial investment in the local large-sized state-owned commercial banks. The different profile of the strategic partner implies a different platform for the future. Therefore, the occurrence of scenario (B) cannot be fully supported.

Scenario (C) is shown in Figure 8.9. Two groups may converge, denoted as '[Group (II) + (III)]' based on the potential changing tendency of Cases 3 and 7 in Group (III) and

potential changing tendency of Cases 4 and 5 in Group (II). The most substantial difference between the two groups is that cases in Group (III) have made equity investment, which indicates their greater commitment to the local market for tapping into both corporate and retail banking. By contrast, cases in Group (II) have not been able to make equity investment.

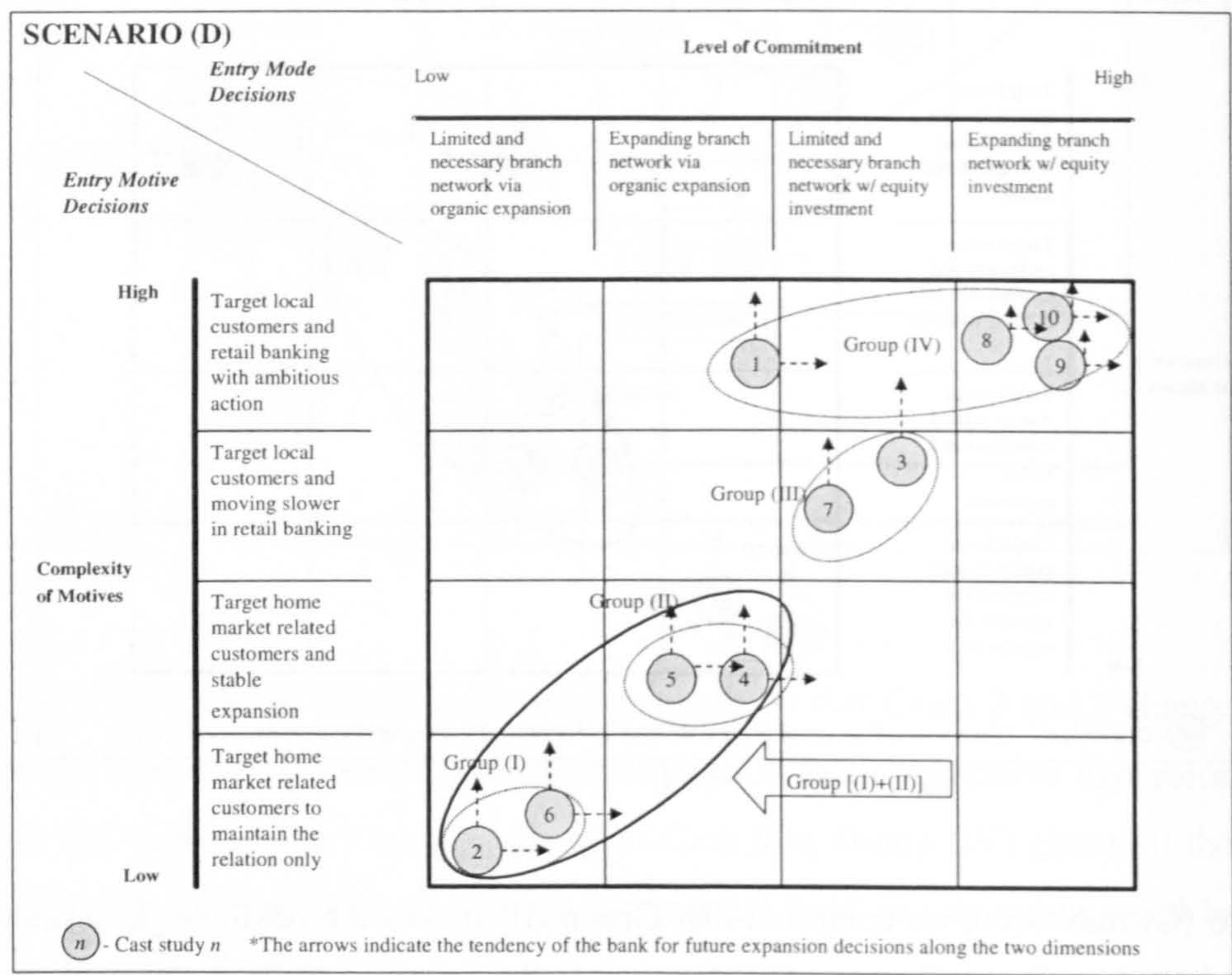
Figure 8. 9 Alternative Group - Scenario (C)



Scenario (C) may occur on condition that Group (II) makes a breakthrough in realising an alternative entry mode and will be more confident in tapping into local business. However, because of the existing and expanding customer base of the same home origin, they have set up a relatively large local branch network and shown a relatively aggressive expansion attitude, which is causing hesitancy in taking risks by making equity investment. In addition, for political reasons, it is uncertain whether the Japanese banks are able to make equity investment. Therefore, the occurrence of scenario (C) is not fully supported.

Scenario (D) is shown in Figure 8.10. Two groups are converged, denoted as ‘[Group (I) + (II’)] based on the potential changing tendency of Cases 2 and 6 in Group (I) and potential changing tendency of Cases 3 and 7 in Group (II). The characteristics common to both groups are their dominant marketing orientations of “following the client” in comparison with the other two groups. Because of the “following the client” marketing orientation, each case has typically targeted its own customer base from its home market origin. Because they provide a similar service to a similar group of customers in the local market, both banks give special attention to competitors from the home origin.

Figure 8. 10 Alternative Group - Scenario (D)



The occurrence of scenario (D) relies on the condition that Cases 2 and 6 change their current conservative attitude to aggressive expansion. But this depends on whether the customers have the expanding demand as experienced by Cases 4 and 5. The converged behaviour also depends on Cases 4 and 5 not finding an alternative mode of entry into the local commercial banks. Both Cases 2 and 6 have no intention of making equity investment. In fact, they are investing in different financial sectors. Therefore, the

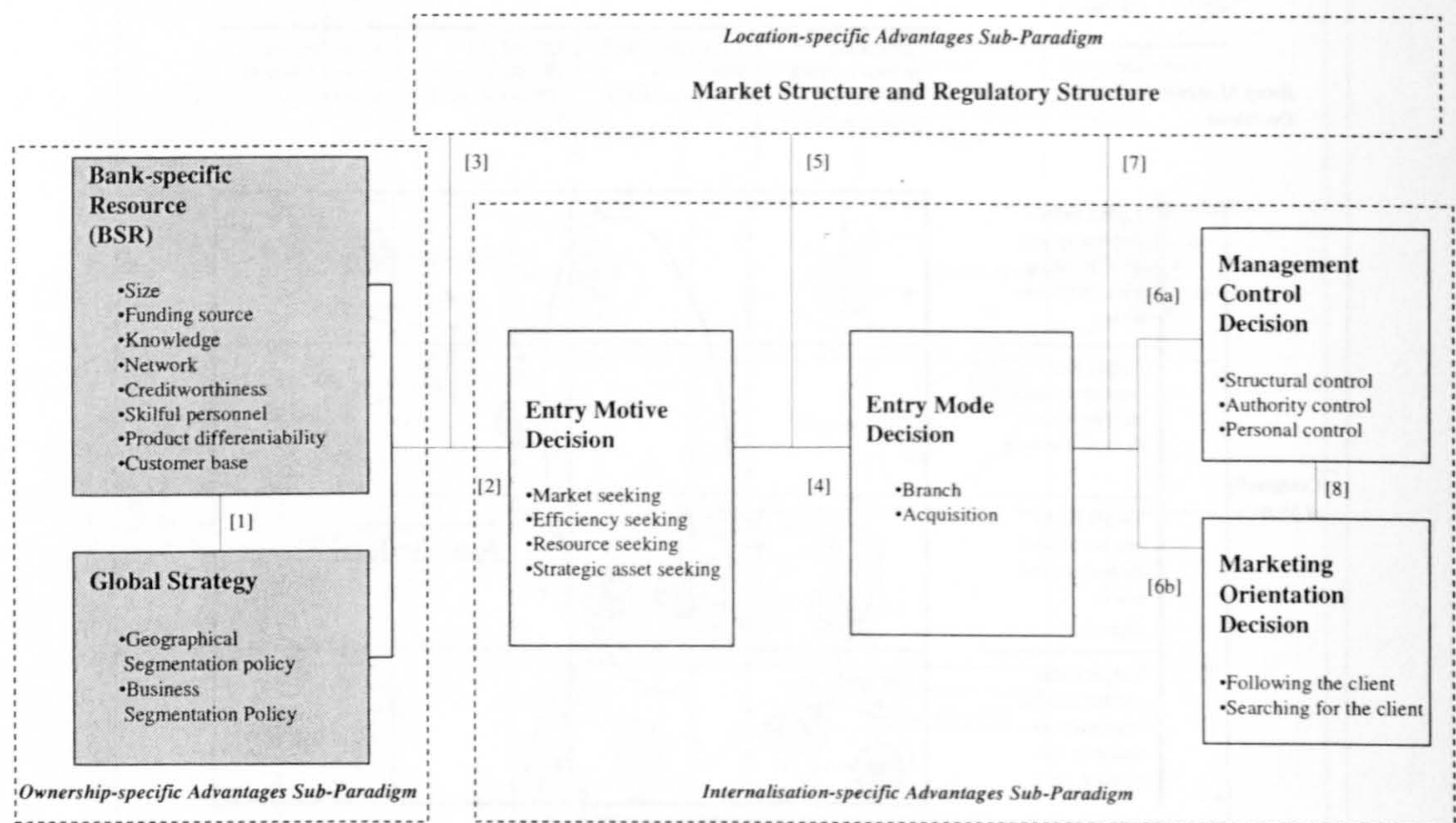
As a result, the occurrence of scenario (E) is not fully supported.

8.3 Explaining the Impact of Ownership-specific Advantages

8.3.1 Focus of the Analysis

This section aims to explain the formation of the strategic entry decisions by looking at the impact of the ownership-specific advantages. According to the conceptual framework, two factors are analysed concerning the ownership-specific advantages. They are the bank-specific resource and global strategy as highlighted in Figure 8.12.

Figure 8. 12 Focus of Analysis – Impact of Ownership-specific Advantages



First, each case is assumed to possess some advantages specific to it. The resource-based view suggests such advantages stem from the resources that are unique to individual banks. Section 8.3.2 analyses the resource profile of each case in order to see whether banks are different in their resource and whether the differences may cause distinct behaviour in the local market.

Second, each case is assumed to have global strategy formulated in the parent bank. The concept of entry strategy defined in Chapter 4 has assumed that strategy is both formulated and formed. Section 8.3.3 analyses the global strategy of each case in order to see whether the formulated strategy is different across cases and whether the differences may cause distinctive behaviour in the local market.

BSR and global strategy are inter-related firm-specific factors. In this analysis, global strategy explains bank decisions regarding the market in which the bank decides to participate in order to exploit the existing BSR, and what product/service the bank decides to provide in the selected market in order to explore BSR further. BSR is the prerequisite conditions for the formation of strategic decisions, while global strategy directly links to the specific decisions that bank can make for the local market.

Both documentary information and the interview data are used in this part of analysis. The former provides a comparative analysis of the resource profile and global strategy across the ten cases. The latter relates the comparative analysis to the behaviour in the local market in China. Using pattern-matching technique, a matched relationship between the patterns to be identified based on ownership-specific advantages and decision patterns identified already in Section 8.2 is anticipated.

8.3.2 Characteristics of Bank-specific Resources

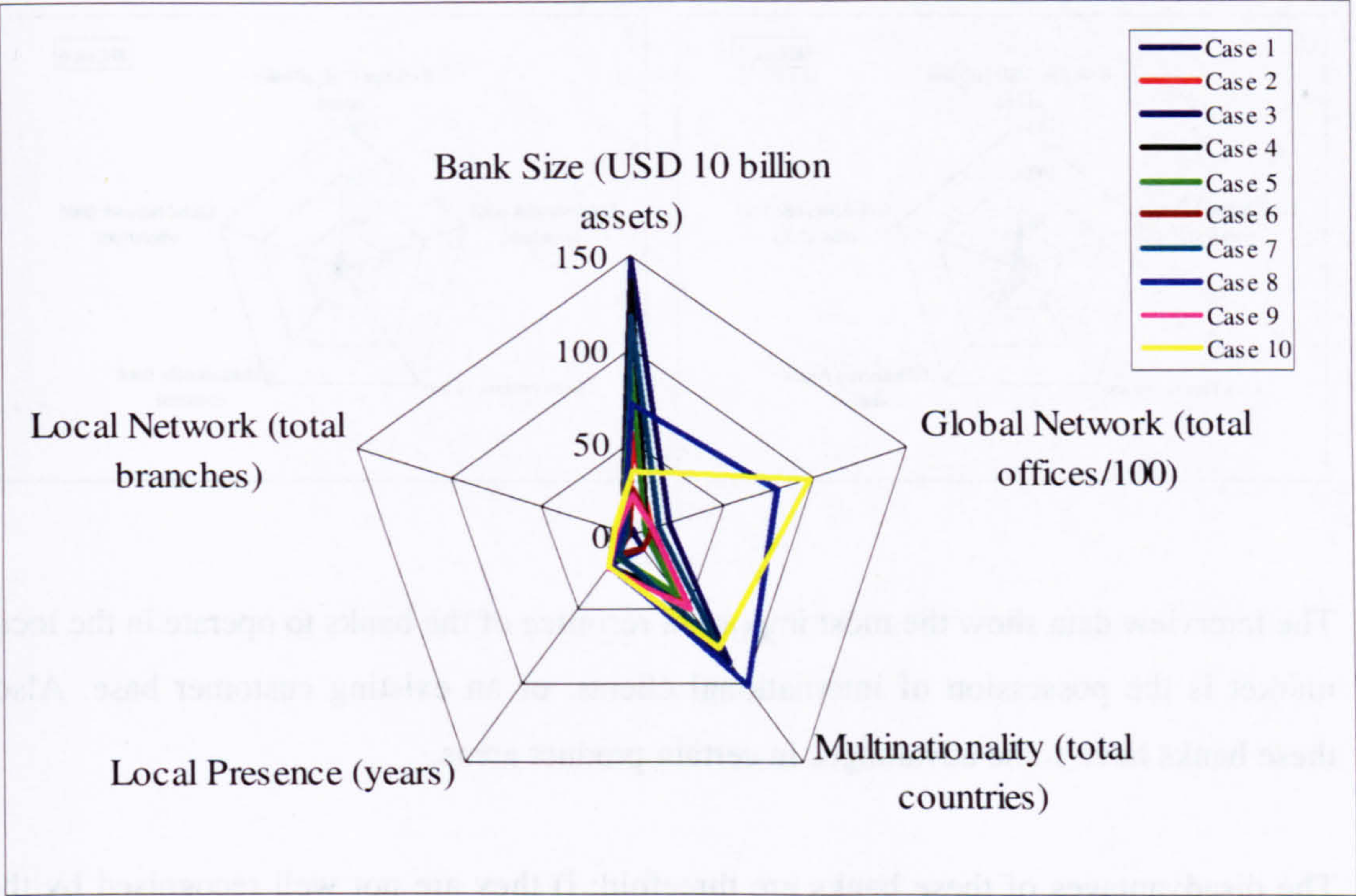
Characteristics of the bank-specific resource (BSR) are compared across cases. Because of the intangibility characteristics of bank resources, distinguishing these resources is not straightforward. As discussed in Section 6.7.1, the availability of information regarding bank-specific resources is also limited given the confidential concern of the banks. As a result, the analysis in this section focuses on five key dimensions of BSR. The five dimensions are selected for three reasons: i) they represent key dimensions suggested by the comparative analysis; ii) they can be studied through collecting information that is both available and comparable across all the cases; and iii) They represent resources at global level and local level. These key BSR dimensions are specified as below.

- i) *bank size* – measured by total assets, indicated by consolidated assets in 2006
- ii) *local knowledge and experience* – measured by total years of market participation, indicated by total years of entry from the establishment of first branch in China since the reopening of the market in 1979
- iii) *local knowledge and experience* – measured by the scale of institutional presence, indicated by total number of branches established by the end of 2006
- iv) *global network* – indicated by total number of foreign offices established by the end of 2006
- v) *multinationality* – indicated by total number of countries in which the bank has offices by the end of 2006

An overview of the five dimensions of the BSR across the ten cases is shown in Figure 8.13. Accordingly, the ten cases are dramatically different in three BSR dimensions, namely, bank size, multinationality, and global network. Cases 8 and 10 are distinct in terms of global network dimension compared with other cases.

In general, local knowledge of the bank, as indicated by total years of entry and total number of branches established, does not differentiate the ten cases, indicating all the banks have limited knowledge. The limited knowledge of local market immediately suggests why knowledge-seeking is one of the main entry motives of all the ten cases as already discussed in the analysis in Chapter 7.

Figure 8. 13 Comparison of Bank-Specific Resources



Note: 1) Total assets refers to the consolidated total assets by the end of 2006; 2) Local presence is based on the year of establishment of the first branch since the economic reform in China; 3) Local network is the total branches established by 2005; 4) Global network is based on the total number of offices by the end of 2006 divided by 100.

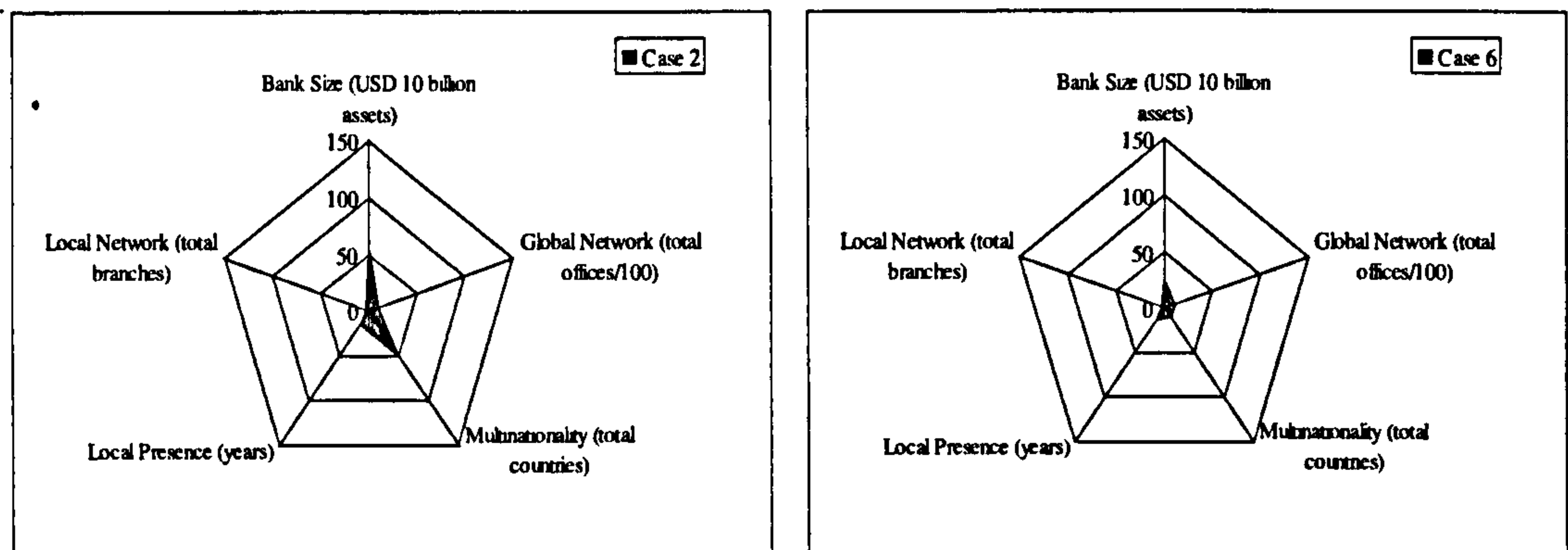
Source: Annual Report (2006); Bank Websites; Bankersalmanac:<http://www.bankersalmanac.com>.

The characteristics of the BSR profile are compared across cases in order to identify the relationship between the BSR profile and the differences among bank decisions. As a result, four types of BSR profile are identified. The characteristics of each type of BSR profile are discussed to indicate why differences in BSR may cause different strategic entry decisions, hence different strategic behaviour in the local market.

BSR Profile Type (I)

As shown in Figure 8.14, Cases 2 and 6 represent similar profiles. In general, the two cases do not have significant advantages in any dimension of the BSR.

Figure 8. 14 BSR Profile – Type (I)



The interview data show the most important resource of the banks to operate in the local market is the possession of international clients, or an existing customer base. Also, these banks have some advantages in certain product areas.

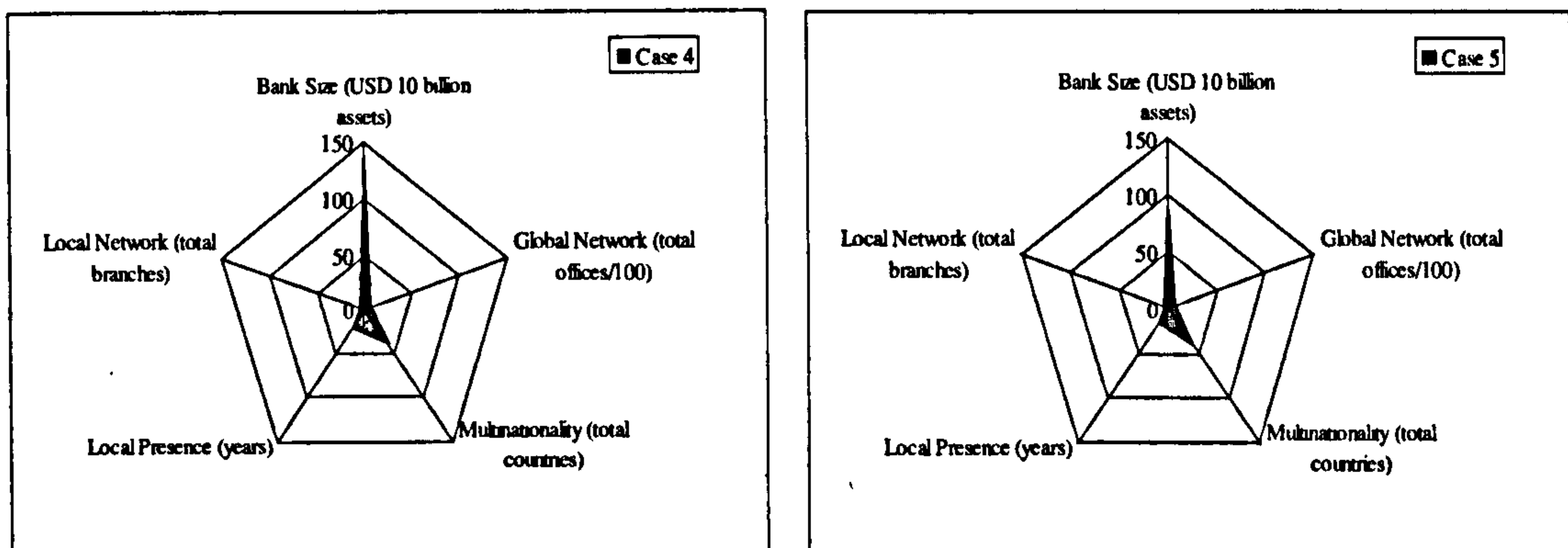
The disadvantages of these banks are threefold: i) they are not well recognised by the local market; ii) they do not have strong capital resources to establish a large network either in the global market or in the local market; and iii) they do not feel they have enough local knowledge to operate in the local market.

The implication of the Type (I) profile is that because of the limited BSR, banks tend to commit only the necessary resource to the local market to satisfy the needs of their clients. The way to deploy the BSR tends to focus on exploiting the existing BSR, rather than exploring new resources. The latter may mean that the bank is involved in more risks in the local market. As a result, banks with a BSR profile of this type try to maintain the BSR and aggregate the resources incrementally.

BSR Profile Type (II)

As shown in Figure 8.15, Cases 4 and 5 represent similar profiles. Both cases have advantages in bank size and multinationality. They are similar in their local presence in terms of entry years and scale of local branch network.

Figure 8. 15 BSR Profile – Type (II)



The interview data show both banks have advantages stemming from four specific resources. These resources are: capital, personnel, culture and network. Both banks regard capital and the availability of skilful personnel as crucial resources of the bank in the local market and they have advantages in these aspects. Headquartered in Asia, the location of the banks provides a familiarity of culture of the local market that the other banks cannot easily obtain. In addition, both banks regard the existing network of the banks as crucial resources.

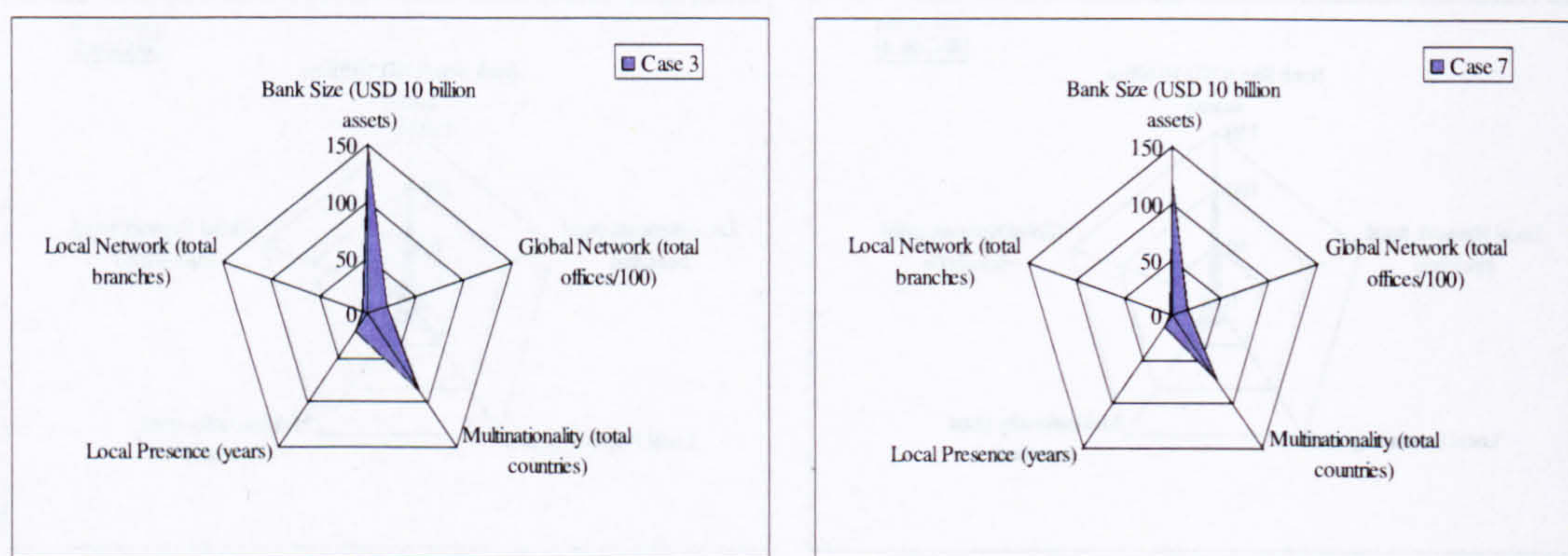
The interview data suggest the disadvantage of both banks is the system of risk management. Both banks have expressed their parent banks have faced high ratio of non-performing loan issue in the past.

The implication of the Type (II) profile is that because of the advantages in bank size and multinationality, these banks have relatively sufficient resources to allocate to different country markets. The BSR advantage is sustained in the local market because the knowledge of local culture cannot be easily emulated by others.

BSR Profile Type (III)

As shown in Figure 8.16, Cases 3 and 7 represent similar profiles. They both have advantages in bank size, multinationality as well as global network. Both banks have a similarly small scale of local branch network and length of time of local presence.

Figure 8. 16 BSR Profile – Type (III)



The interview data show the most important resources for both Cases 3 and 7 are in four aspects: i) both banks benefit from referred customers through the global network. Case 3 believes it has one of most extensive banking networks in the world. Case 7 also claims it has unparalleled financial services throughout the world; ii) as long as the product is appropriate for the market, they are confident that they can explore the local market; iii) they have an advanced management system particularly concerning the risk management; and iv) both banks have experiences in other emerging markets that can be applied to the local market.

The disadvantages of these banks are threefold according to the interview data: i) they are short of local market-based knowledge; ii) in order to open the local market, good quality local staff is important but they do feel they are the most competitive in having skilful personnel for the local market; and iii) they are based in Europe and lack knowledge of the culture in the local business environment.

The implication of the Type (III) profile is that because of the advantages in bank size, network, and multinationality, these banks have the potential to sustain the advantage through exploring the existing BSR in the local market. They can be ready to make further commitment to the local market. However, the knowledge about local market and culture as well as the risk management concern may indicate they are less aggressive in resource commitment to explore the local market.

BSR Profile Type (IV)

As shown in Figure 8.17, and Figure 8.18, Cases 1, 8, 9, and 10 represent two sub-groups of bank resources. They are similar because these banks have BSR advantages in every dimension. They are also dramatically different from each given Cases 1 and 9 have lower levels of BSR profile than Cases 8 and 10.

Figure 8. 17 BSR Profile – Type (IV-A)

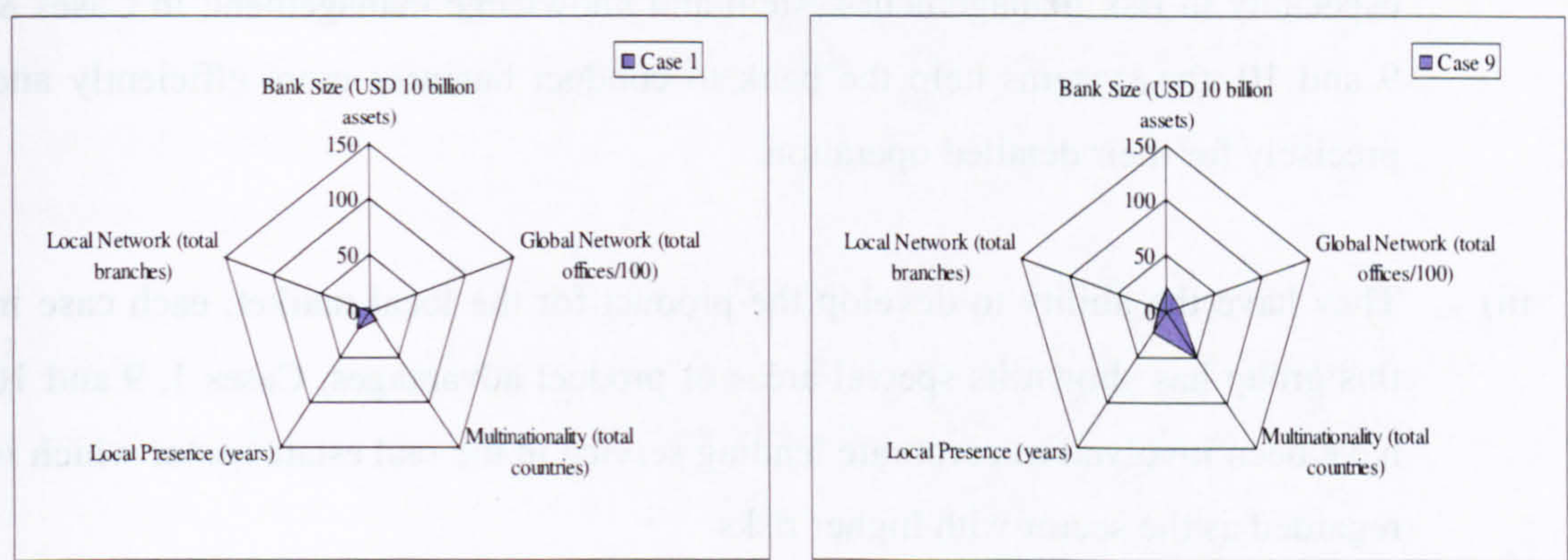
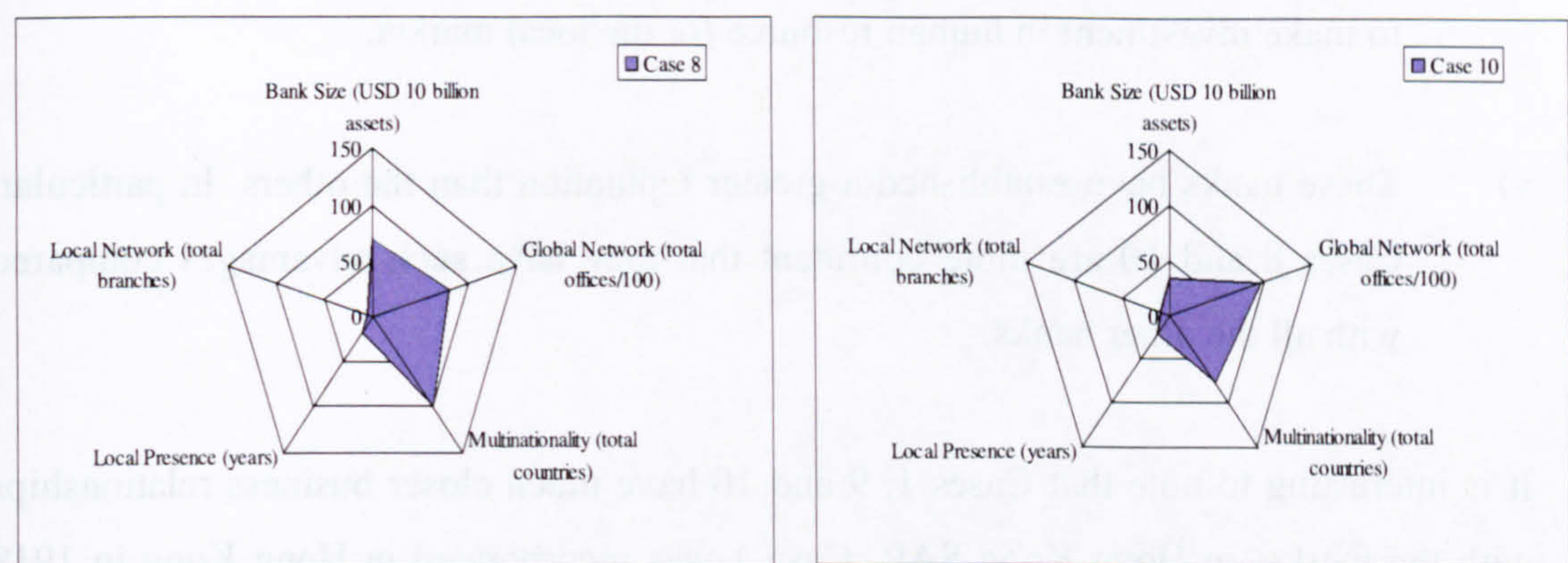


Figure 8. 18 BSR Profile – Type (IV-B)



The interview data suggest these banks have advantages in five aspects:

- i) The referral customer is one of the most important resources for earlier development in the local market; especially in Cases 8 and 10, the distinct global network provide advantages for these banks to have more existing clients based in the local market.
- ii) Operation in the local market is supported by advanced management systems especially in risk management system and knowledge management; in Cases 8, 9 and 10, the systems help the bank to conduct business more efficiently and precisely for their detailed operation.
- iii) They have the ability to develop the product for the local market; each case in this group has shown its special areas of product advantages. Cases 1, 9 and 10 have been involved in corporate lending service in the real estate sector which is regarded as the sector with higher risks.
- iv) In the deployment of BSR to the local market, they have a relatively strong supply of skilled personnel. Cases 8 and 10 have more ability than Cases 1 and 9 to make investment in human resource for the local market.
- v) These banks have established a greater reputation than the others. In particular, Cases 8 and 10 are more confident that they have such advantages compared with all the other banks.

It is interesting to note that Cases 1, 9 and 10 have much closer business relationships with the market in Hong Kong SAR. Case 1 was incorporated in Hong Kong in 1918 and by 2006 it has become the largest independent local bank in Hong Kong. Case 9 is also historically based in Hong Kong. Case 10 was first established in the Hong Kong area and from there developed into a global bank. Such geographical and cultural closeness indicates advantages that are not to be emulated easily by other banks.

The four banks are also early entrants, even before the reopening of the market in China in 1978. The history of these cases suggests the four banks have earlier market participation experience in China. Case 1 established their first branch in 1920; Case 8 opened their first branch in 1902; Case 9 in 1858 and Case 10 in 1865. Early presence in the local market provides advantages in experience that other banks cannot easily emulate in a short time.

The implication of the Type (IV) profile is that these banks tend to make more resource commitment to the local market. Because of the overall BSR advantages, these banks are not satisfied relying only on the existing resource such as existing customers referred by the parent bank to the local branches. Active exploration in the market is anticipated in order to aggregate and renew the resource for business opportunities.

To summarise, comparative analysis results in four types of BSR profile, which approximate the bank groups with different decision patterns identified in Section 8.2. This matched pattern BSR profile suggests that bank decisions and behaviour are influenced by the existing advantages derived from BSR. The differences of four types of profile indicate why the four bank groups potentially have different entry decisions.

8.3.3 Impact of the Global Strategy

i) Geographical Segmentation Policy

This section analyses global strategy in terms of geographical segmentation policy. It is assumed that the more a particular market is important for the bank, the more likely a resource is allocated to that geographical area. Analysis of the geographical segmentations suggests whether the market in China is addressed using different emphases.

Appendix E-1 presents the geographical segmentation analysis for the ten cases. The geographical segmentation policy is indicated by two measurements. One is allocation of assets to the activities in each market segment, which indicates the importance of each particular market segment to the bank. The other is the contribution of each market

segment to profit, which indicates whether banks mark profit against risks through putting resources into that particular market. The global geographical segment policy is analysed case by case as follows in order to identify the patterns of decision relative to the entry decision for the local market.

In Case 1, (see Appendix E-1, Figure Case 1-GS1 and Case 1-GS2), apart from the home market in Hong Kong SAR, the market in mainland China is one of the main segments. The Chinese market has been allocated increasing assets in recent years. The resource committed to the market in China has made an increasing contribution to profit. As explained by the operations manager (1.1/M-OPE), *“This portfolio reflects our traditional business focus. Also it reflects the development of the local market.”* The bank is confident in exploring the market in China. Expressed by the deputy general manager (1.5/S-DGM/OPE), *“The contribution of business in China to the group profit is increasing every year with very promising speed.”* The special position of the market in China indicates an aggressive attitude in making the entry decisions for the market.

In Case 2, (see Appendix E-1, Figure Case 2-GS1 and Case 2-GS2), as well as the home market in Germany, which is the dominant market, the market in Europe is concentrated. The bank has also participated in North America and Latin America. In comparison, the market in Asia has been allocated with far less assets. According to the marketing manager (2.4/S-MAR), *“In Asia we have Tokyo and Singapore and Shanghai as the hub.”* The reason for less development in those areas is attributed to the changes in business focus. The contribution to profit by the market in Asia has decreased in recent years. The restructuring of the bank through the merger with an insurance firm in 2001 potentially influenced the contribution of market segments to profit. However, it is only since 2005 that the bank has been able to see progress after the merger. The dramatic restructuring of the parent bank explains why the bank in China has not been given further resource commitment; rather, it just maintains the minimum presence as the option for future development.

In Case 3, (see Appendix E-1, Figure Case 3-GS1 and Case 3-GS2), apart from the home market in France, the bank participates mainly in other European countries, North

America and Asia. The three markets outside France also have made the greatest contribution to profit. The marketing manager (3.1/S-MAR) explained how the bank has wide international market participation, “*(the bank) has the advantage in certain areas such as the Middle East or Africa*”. Because of experience, it has the confidence to target the market in China. As explained by the general manager (3.2/S-GM), “*Yes, China is very specific, but it is not the first time that we have entered a country which is very different from France. We are used to a market that is very different from our domestic market.*” From 2003, the market in Asia and Oceania has been reported as a separate segment which used to be reported together with the segment in America. This change indicates the importance of the market in Asia as evidenced by the contribution of the market to profit as well. The market in China is regarded as a powerful growth engine of the future.

In Case 4, (see Appendix E-1, Figure Case 4-GS1 and Case 4-GS2), apart from the domestic market in Japan, the bank has participated in the U.S., the European markets and other markets in Asia. Although geographically close to China, the market in China has not grown enough to be treated as a separate segment. China is one of emerging markets in Asia that attracts the bank to invest mainly because of the investment by clients from the same home market origins to those markets. As explained by the marketing manager (4.3/M-MAR), “*The economic recovery starts in 2005 back at home, which is directly reflected by the increased investment in manufacturing of Japanese enterprises in the overseas market such as the China market and India as well as South East Asia.*” The contribution to profit of each market segment has shown dramatic change before and after 2001, which is partially due to the merger of the bank with another bank in the same year.

In Case 5, (see Appendix E-1, Figure Case 5-GS1 and Case 5-GS2), apart from the domestic market, as dominant geographical segments, the bank has participated in the markets of America, Europe and Asia. The contribution to profit of the foreign market has not been stable in recent years. The bank also experienced a merger in 2001 and restructuring in 2002, which may explain the changes of segment contribution to profit. The performance of the market in Asia has recovered since 2005. China is important

because it is the market of the Japanese enterprises. Because of the good performance in China, the bank may consider separating China out from its Asian countries in order to give the market more attention.

In Case 6, (see Appendix E-1, Figure Case 6-GS1 and Case 6-GS2), apart from the home market in Canada, the bank has participated mainly in the market of the US. The participation in Asia is not highlighted in the market segment. In fact, the market in the US is regarded as part of the home market because of its geographical proximity to the home market. Both markets have made the most contribution to profit. The importance of the China market is explained by the market manager (6.2/M-MAR): *"You can see this year we increased investment in China. Also (the bank) is not a global bank. It focuses on North America. In Asia it has a presence in Hong Kong and Mainland China."* In this case, the North American market is quite mature and has less potential to development. China represents the emerging market with potential for development.

In Case 7, (see Appendix E-1, Figure Case 7-GS1 and Case 7-GS2), apart from the home market in Germany, the bank has focused on the market in other European countries. It has participated in North America and South America, with the latter becoming less significant in recent years in terms of assets allocation. It has a clear focus on the market in Asia and other emerging markets which has made an obvious contribution to profit in recent years. China is not highlighted as a market segment which indicates the potential for future development. As explained by the country operations officer (7.3/S-COO): *"China is a very complex environment that you really need to understand very thoroughly before you can implement certain structures and strategies."* The bank has successfully participated in the market in India, which according to the operations manager (7.1/S-OPE) is because the same business model can be applied in China.

In Case 8, (see Appendix E-1, Figure Case 8-GS2), apart from the home market in the U.S., the bank has diversified business globally. The other five main market regions include Mexico, Europe, Middle East and Africa, Japan, Asia Pacific excluding Japan and Latin America. Each geographical segment clearly has made contributions to the net

income. As the compliance manager (8.2/S-LM) highlighted, *“We don’t have clear market concentration. You know (the bank) has outlets in over a hundred countries. Therefore, its strategy must be targeting the global market and customers from different nationalities and cultures.”* The importance of the market in Asia Pacific is obvious in terms of contribution to the net income. Although the market in China is not defined as a segment, the bank is one of important player in the market. According to marketing manager (8.1/S-MAR), *“From the market perspective, globally we have more than 6,000 branches in more than one hundred countries. There are many customers who want to come in China.”* The need to keep serving the existing clients has made the bank one of the main players in the market in China.

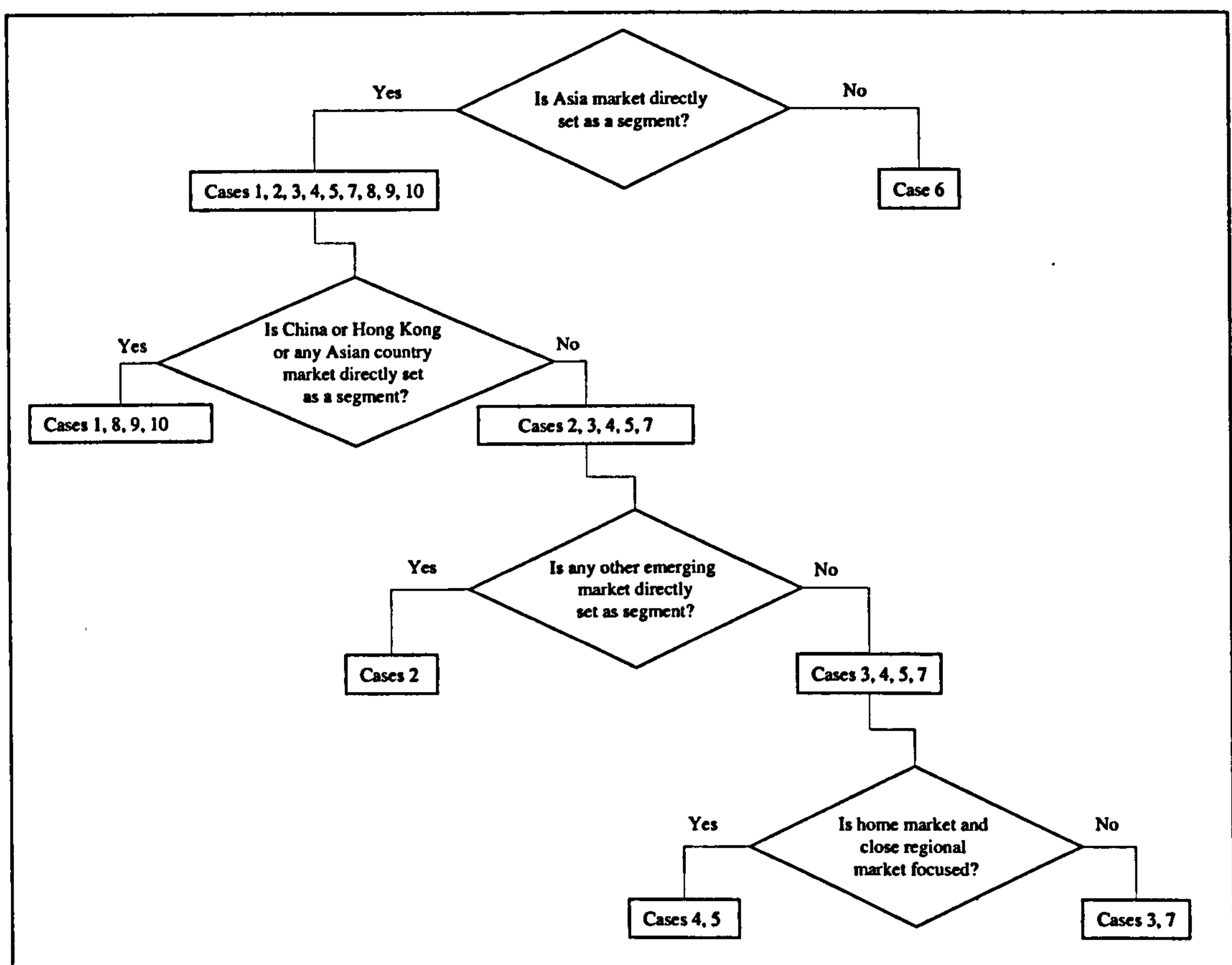
In Case 9, (see Appendix E-1, Figure Case 9-GS1 and Case 9-GS2), the bank is well positioned in what it calls the emerging trade corridors of Asia, Africa and the Middle East. The bank derives over 90 per cent of profits from these markets. As explained by the general manager, *“We try to target opportunity wherever there is. Part of the reason for this is because our parent bank in the UK has started targeting emerging markets since the 1950s. This may differentiate us from other foreign banks here.”* Although China is not treated as a segment, the market is one of the targets to which the bank extends a geographical reach together with the markets in other Asian countries including Korea, Thailand and Vietnam. In comparison, the contribution to profit by the home market is not in a dominant position as it is with other banks.

In Case 10, (see Appendix E-1, Figure Case 10-GS1 and Case 10-GS2), the home market is far less significant than the other two geographical segments of the bank: one is the market in Hong Kong, where the bank has allocated most of the assets for the business there, the other is the rest of the Asia Pacific countries. The two main markets have made most of the contribution to profit. As the marketing manager (10.1/S-MAR) explained, *“Because (the bank) is very strong at home in Hong Kong, that helps (the bank) to leverage to have a better positioning in China, not only in capital but also in human resources.”* China is not treated as a segment, but is regarded as one of the most important markets, which are commented on by the credit manager (9.4/M-CRE), *“(The bank) is not the biggest bank in the world. But in the emerging market, especially in*

China, our scale and our portfolio is one of the biggest.”

To summarise the geographical segment dimension in the global strategy, the above evidence shows the ten cases have made different decisions for their market participation globally. The pattern of the geographical segment decisions is analysed further as shown in Figure 8.19.

Figure 8. 19 Global Geographical Segments and the Participation in China



The ten cases are viewed according to several filtering criteria for the purpose of explaining the strategic importance of the market in China. The analysis shows the decision about whether to have the market of China as a segment is different. As a result, the ten cases have different types of geographical segment policy through the following categorising process:

- The question of whether Asia is directly set as one of the market segments differentiates Cases 1, 2, 3, 4, 5, 7, 8 and 10 as one group of banks and Case 6.
- The question of whether the market in China or Hong Kong or any Asian country is directly segmented differentiates Cases 1, 8, 9 and 10 as one group and Cases 2, 3, 4, 5 and 7 as another group.
- The question of whether any other emerging market is directly set as a segment differentiates Cases 2 and Cases 3, 4, 5 and 7 as one.
- The question of whether the nearer regional area is the second largest segment next to the home market differentiates Cases 4 and 5 as one group and Cases 3 and 7 as another group.

As a result of the above classification, Cases 3 and 7 focus on the home market and the other European markets. Cases 4 and 5 focus on the home market as well as the market in America. Cases 1, 8, 9 and 10 focus on markets in mainland China and Hong Kong or markets in Asia. Cases 2 and 6 do not belong to any of the categories.

Each group indicates a different emphasis on the market in Asia, and in particular on the market in China. This might suggest why each group of banks has a different determination to allocate resources to the local market. The groups, as formed by the analysis in this section, approximate what is found from the grouping analysis summarised in Section 8.2. The findings suggest the decisions on resource allocation of each segment globally influence the strategic entry decisions for the local market.

ii) Business Segmentation Policy

This section analyses global strategy in terms of business segmentation policy. It is assumed that the banks tend to explore the existing advantages in certain products and services in the new market. The more the product made contributed to the profit, the more likely the resource is allocated to that particular product line. Analysis of the business segments suggests why banks differ in becoming involved in different business

segments in China. More specifically, and as suggested by the analysis, the analysis explains why banks differ in selecting retail banking in the local market.

Appendix E-2 presents the business segmentation analysis for the ten cases. The allocation of assets to the activities in each business line indicates the importance of that product to the bank. The contribution of each business line to profit indicates whether banks mark profit against risks through putting resources into a particular service. The business segment policy is analysed case by case as follows in order to identify the patterns of decisions relative to the entry decisions for the local market.

In Case 1, (see Appendix E-2, Figure Case 1-BS1 and Case 1-BS2), the bank has mainly four business segments, including personal banking, corporate banking, investment banking and corporate services. Besides the corporate banking service, the other three main product segments have made the main contribution to profit. The bank has seen more profit contributed by the investment banking segment in recent years. Because of the limited market in Hong Kong, the bank is preparing to target the retail banking in the local market. Explained by deputy general manager (1.8/S-DGM/MAR), *“You know, (the bank) is strong in retail (back home) not wholesale (banking).”* In addition, the bank also explores bancassurance business opportunities through entering cooperation agreements with local insurance companies. The business segments in Case 1 suggest the bank focuses on commercial banking.

In Case 2, (see Appendix E-2, Figure Case 2-BS1 and Case 2-BS2), most assets have been allocated to the businesses in corporate finance and advisory as well as the capital market. The bank does not conduct retail banking outside Germany. The credit manager (2.3/M-CRE) stated, *“We have not been doing any retail business outside Germany. Germany is the country for (the bank) to do retail banking... But we are of course doing private banking, and we are doing it worldwide with quite new clients.”* The marketing manager (2.4/S-MAR) explained that, *“(the bank) is more or less reduced to investment banking. In some areas the corporate banking activities are dominant. The Shanghai branch is also one of them.”* The product segment shows corporate banking, corporate investment as well private business banking have made the most significant contribution

to profit in recent years. In general, the bank focuses more on investment banking. The bank is active in gaining a licence to trade in definitive products in China. The merger of the bank with an insurance firm has brought new opportunities for cross-selling financial services to the local market.

In Case 3, (see Appendix E-2, Figure Case 3-BS1 and Case 3-BS2), most capital has been allocated to corporate and investment banking, which includes advisory and capital market and financing. The banks have also been involved in international retail banking. Together, these segments have made the most contribution to profit. The marketing manager (3.1/S-MAR) explained, *“In principle, we do not conduct retail banking in Asia or in Hong Kong. In the global market, the retail banking business is well developed only in two areas, one is France, and the other is the United States, which we run through acquisition.”* In the market in China, the bank also focuses on corporate and investment banking. The involvement in the local retail banking segment is also evidenced.

In Case 4, (see Appendix E-2, Case 4-BS2), the bank has maintained the same business segment since 2003. The bank group is a fully-fledged comprehensive financial group with diversified business segments including retail banking, commercial banking, global corporate banking, investment banking and asset management, operation service and treasury. Each segment has clearly made a contribution to operating profit. According to the deputy general manager (4.1/S-DGM), *“In Japan we have many branches and they cover both corporate and retail banking.”* Retail banking in the overseas market is not regarded as a segment, which explains why the bank is hesitating in conducting retail banking outside Japan.

In Case 5, (see Appendix E-2, Figure Case 5-BS1 and Case 5-BS2), the product segment is simply divided into three areas including banking business, leasing business and others business. The contribution to ordinary profit is mainly from the banking business and other business. According to the marketing manager (5.1/M-MAR), *“In the domestic market, of course we do everything. We do corporate finance, investment banking and also personal banking. All of them are very important.”* Retail banking in

the overseas market is not regarded as a segment, partially explaining why the bank is hesitating in tapping into the retail market in China.

In Case 6, (see Appendix E-2, Figure Case 6-BS1 and Case 6-BS2), the bank has a simple approach of segmentation with most assets allocated to the investment banking and personal and consumer banking. In comparison, corporate banking and corporate services are less significant. These product areas have contributed to the profit for the bank. According to regional manager (6.1/S-REG), *“Outside Canada, we have retail business ambitions in the United States. And again we view the United States as our home market. We have two home markets. It is difficult for us to link doing retail business on a broad basis in Asia to our core strategies.”* The BSR resource suggests the bank is less capable of making investment in retail banking outside its market in America. The general manager (6.4/S-GM) addressed commercial banking as not the focus of the bank in China; *“The future for foreign banks is to generate more fee-based income.”*

In Case 7, (see Appendix E-2, Figure Case 7-BS1 and Case 7-BS2), assets are mainly allocated to corporate banking and securities, which make the greatest contribution to profit. Private business is also increasing in recent years. The success in private banking in India encourages the bank to believe that the same policy should be carried out in the market in China. As explained by operations manager (7.1/S-OPE), *“... the large potential private banking market in China is so tempting. We have the experience from entering into the India private banking market where the investment brings expected good return. With the same assumption, you can expect our large investment to be in private banking.”*

In Case 8, (see Appendix E-2, Figure Case 8-BS2), the bank has allocated four main business lines including global consumer banking, corporate and investment banking, global wealth management, and alternative investment. In the global consumer banking segment, the bank has consumer banking based in the home market and international consumer banking including the retail banking in the overseas market. The product segments are explained by the marketing manager (8.1/S-MAR) that, *“For each*

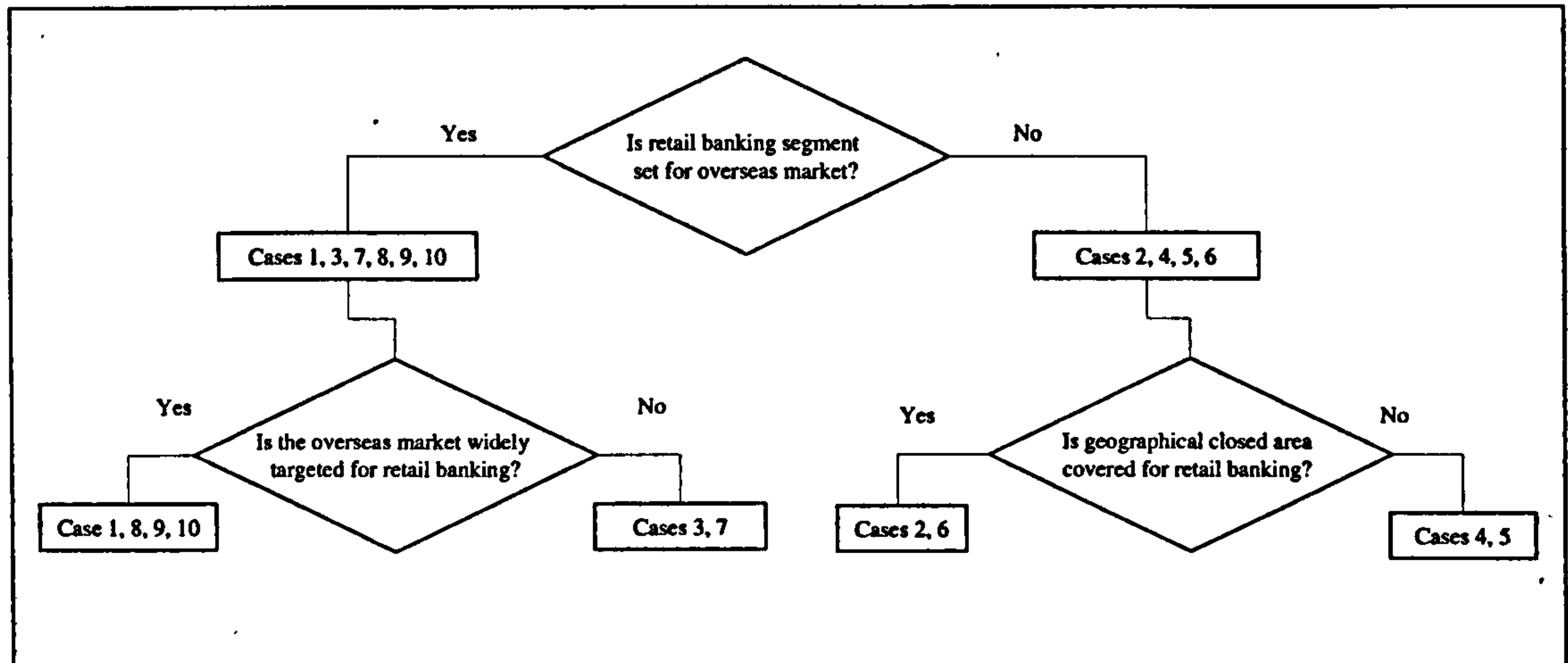
business line, we have a certain level of operation in China. People in charge of specific business lines work closely with their regional offices either in Hong Kong, or Singapore, or in some cases in Japan.” Their international banking experience explains why the bank is confident to penetrate into the retail banking in China. The bank was the first foreign bank to commence retail banking operations in China.

In Case 9, (see Appendix E-2, Figure Case 9-BS1 and Case 9-BS2), the group is organised on a worldwide basis into two main business segments: wholesale banking and consumer banking. The market segment is simple and focuses on commercial banking. A similar product segment is applied in China. As explained by the operations manager (9.3/S-OPE), *“(The bank) will adopt an approach on both sides to working on both retail and wholesale banking in China. The bank spends very quickly for the last one or two years. Especially in consumer banking, the team/headcounts people expand very quickly, so the business expands very quickly.”*

In Case 10, (see Appendix E-2, Figure Case 10-BS1 and Case 10-BS2), assets are allocated mainly in corporate investment banking, personal finance services and commercial banking. These business lines have made the greatest contribution to profit. In China, the bank targets a “full play” of different businesses in both wholesale and retail banking. The impact of the global product developed is commented on by general manager (10.2/S-GM), *“For the bank the consumer banking has done it quite recently at the group level and we will continue to do it. I foresee consumer banking should do better than corporate banking in the longer term in China.”*

To summarise the business segment dimension in the global strategy, the above evidence shows the ten cases have very different business segment policies regarding how financial services are provided and organised at the group level. In terms of the specific decisions regarding retail banking, the pattern of product segment decision is analysed further as shown in Figure 8.20.

Figure 8. 20 Global Retail Banking and Retail Banking in China



The ten cases are viewed according to several filtering criteria for the purpose of explaining why targeting the retail banking segment can be the specific entry motive in China for some banks but not for others. The analysis suggests the extent to which motivation to seek entry into the retail banking market is influenced by the international retail banking experience. As a result, the ten cases show different types of international retail banking experience through the following categorising process.

- The question of whether retail banking has been targeted for the overseas market differentiates Cases 1, 3, 7, 8, 9 and 10 as one group and Cases 2, 4, 5 and 6 as the other group.
- For banks to be involved in retail banking in the overseas market, the question of whether the target is worldwide or is in a specific market differentiates Cases 1, 8, 9 and 10 as one group and Cases 3 and 7 as the other group.
- For banks that do not conduct retail banking in the overseas market, the question of whether the nearer regional area is targeted for retail banking differentiates Cases 4 and 5 as one group and Cases 2 and 6 as the other group.

As a result of the above differentiations, Cases 2 and 6 focus on retail banking in the home and the nearby market in Europe. Cases 4 and 5 focus on retail banking in the home market and also in market in the U.S. Cases 3 and 7 focus on retail banking in the home market and limited market internationally. Cases 1, 8, 9 and 10 focus on retail banking with their direct international retail banking experience. Within the last group, Case 1 has far less scale in retail banking compared with the other three cases.

Each group indicates a different emphasis on the business focus. There are banks that focus on the traditional commercial banking, that focus on investment banking, and that focus on universally providing all types of business to the market. Differences in the business segment suggest the expertise and experience of each bank are different. The groups as formed by the analysis in this section approximate what is formed from the grouping analysis summarised in Section 8.2. The findings suggest the decision of whether a certain market segment is sought by a particular bank is part of the decision influenced by the global business segmentation policy.

8.4 Explaining the Impact of Location-specific Advantages

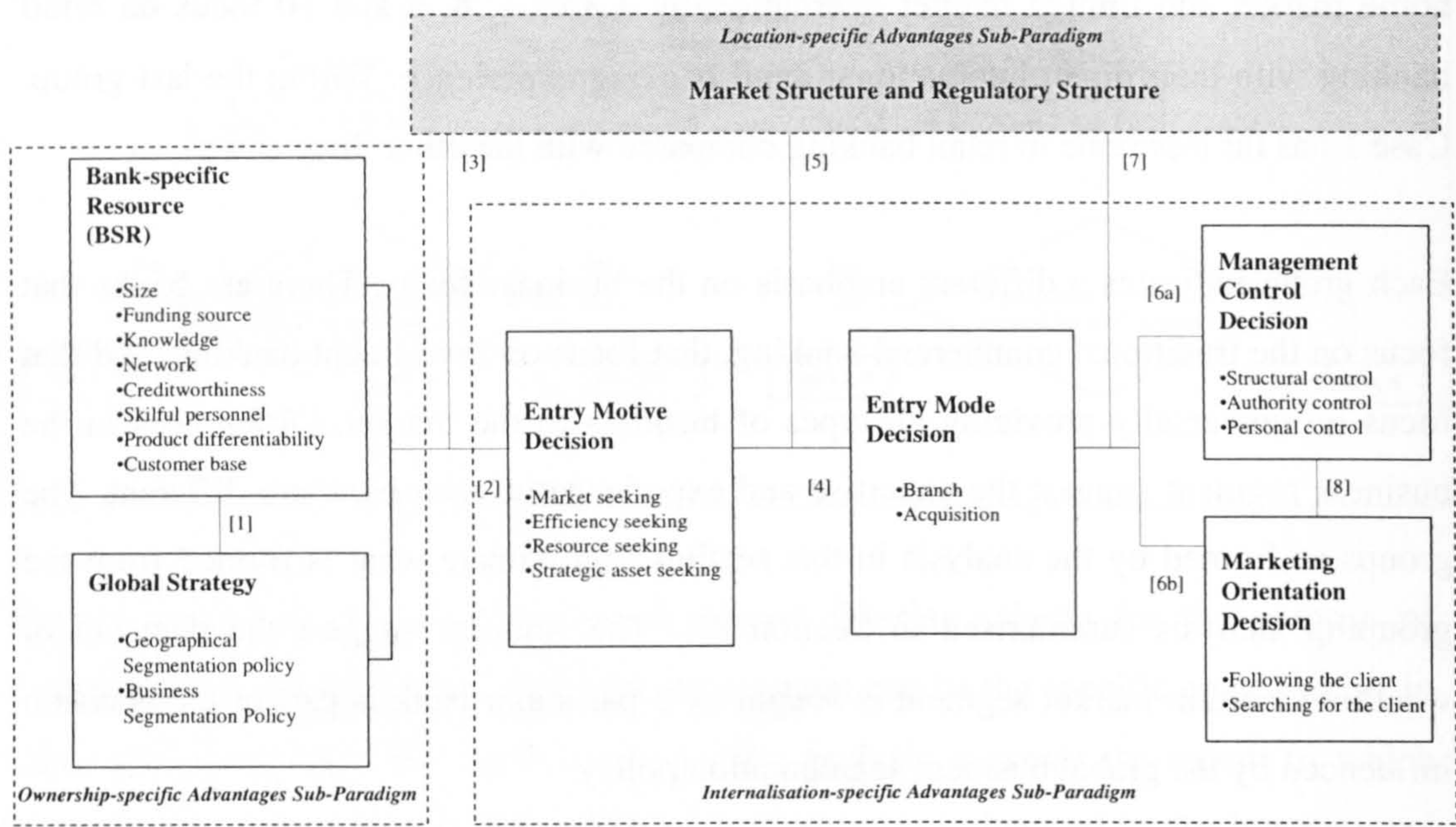
8.4.1 Focus of the Analysis

This section explains the strategic entry decision by looking at the location-specific factors. According to the conceptual framework, the location-specific factors include both the market structure and the regulatory structure. In this context the competitive advantage under the regulatory impact is examined. The focus of the analysis is highlighted in Figure 8.21.

The impact of location-specific advantage has been analysed partially in Chapter 7. This part of the analysis continues by focusing on the regulatory impact. Specific to the entry and expansion activities of foreign banks, regulatory impact impedes the deployment of the BSR through three main instruments: i) restrictions on business scope (i.e., restrictions regarding location, customer, and products); ii) restrictions on the market access (i.e., restrictions on the entry mode decisions); and iii) restrictions on business operation (i.e., specific restrictions on the operations such as rules on interest rate,

foreign debt quota).

Figure 8. 21 Focus of Analysis – Regulatory Impact



The analysis tries to demonstrate that because of the regulatory impact, the MNBs have tended to behave similarly within a limited business scope, simple platform and similar practice. The analysis also tries to identify to what extent the impact influences the entry decisions by looking at the competitive advantage.

8.4.2 Impact by Business Scope Control

As shown in Table 8.1, the interview data confirm that what each bank could offer to the market is limited to a small range of business scope in terms of the client served, geographical area served and the product provided are restricted to the currency of the services. The corporate lending business is still the dominant business for each case.

Table 8. 1 Restrictions on the Business Scope

	Impact from Restrictions of Business Scope (Product, Customer, Location, Currency)
Case 1	I do not feel that the Parent Bank can launch various <u>products</u> for the China market is that important in the past, because lots of products from the Parent Bank cannot be applied to this market; they are restricted by regulations...For those businesses we do not get involved, it is because the market is not promising, or the regulation limits the full play of that business in practice.(1.1/M-OPE) For RMB business, there is <u>geographical restriction</u> on the branch. Otherwise, the branch can serve customers without geographical restrictions.(1.2/M-CRE.LM) At the opening stage, we can only do <u>RMB business</u> on the condition that Parent Bank injects enough capital according to the regulations.(1.4/S-DGM-MAR)
Case 2	<u>Geographically</u> , for RMB the bank is limited to certain areas.(2.2/S-COO); ...The type of customer is now not relevant to us because we cannot do business with Chinese individuals. (2.2/S-COO) It (the business) will really only grow and take off with one major change that the Chinese RMB could be made convertible. The rules and regulation with respect to <u>currency</u> trading change.(2.1/S-GM)
Case 3	In the past, we were not allowed to do certain types of business. Now, if the regulation allows us to develop the <u>products</u> , we will find the solution.(3.1/S-MAR)
Case 4	The most influential regulation is the control of <u>foreign currency</u> ...Another restriction is the <u>geographical restriction</u> of doing RMB business. Some areas are not opened to foreign banks to conduct RMB business;(4.3/M-MAR)
Case 5	For non-Japanese customers, we encountered special problems such as the <u>availability of RMB</u> . (5.3/M-CRE)

Table 8.1 continues

	Impact from Restrictions of Business Scope (Product, Customer, Location, Currency)	•
Case 6	Of course we are constrained by the regulation. We have to follow and do business within the small <u>permitted scope</u> (6.3/S-DGM/OPE); the <u>geographic limit</u> for RMB business. So far only 25 cities are opened to foreign banks to do RMB business. We cannot serve customers not from these 25 cities. The location of the customers must be an opened city by regulation. China is big with over 30 provinces, and many cities. The cities opened to foreign banks are limited. (6.2/M-MAR)	
Case 7	The problem of <u>account requirement</u> in China can cause different practices in China. Because of the account requirement, a branch has to deal with lots of reporting, verifications, and applications for both inward and outward transactions. This part of the job, if it exists in the other market, is processed by the system. (7.1/S-OPE)	
Case 8	n/a	
Case 9	Many <u>products</u> are not allowed to be done locally by the regulator, or the market is not mature enough to provide sufficient market needs. We are promoting our products and business, and we hope that the market demand can change and that limitations of regulation can be eased. (9.3/S-OPE); We have cities in China we can do local currency RMB business. (9.3/S-OPE) There are many <u>regulations</u> on the <u>customers</u> that the banks are going to be dealing with (9.3/S-OPE)	
Case 10	I would say in terms of <u>corporate banking</u> , there are no particular structures. ... There are lots of regulatory constraints so far for <u>consumer banking</u> . For corporate banking it is more or less on the market side. (10.2/S-GM) We still are not yet allowed to do <u>local currency</u> business for <u>local individuals</u> . That is the last restriction till the end of this year. (10.2/S-GM)	

8.4.3 Impact by Market Access Control

Banks need to set up the platform for operation in the local market. The market access refers to the permitted entry mode and the extent a certain entry mode is allowed to be set up for the foreign banks in China. The main market access channel is the branch entry mode.

Foreign banks are constrained by regulation concerning branch expansion in terms of location, scale and speed as discussed already in Chapter 7. Despite the slightly different views across the ten cases, it is well recognised by them all that under the regulations, it is not possible for any of them to establish the same scale of local branch network as that possessed by the local Chinese banks. The “organic” branch expansion, i.e., to expand the branch using the bank’s own resources, would not satisfy the entry motive for certain banks.

The attitude towards the cost of branching reflects the banks’ capital resources. However, it is not a pure capital resource issue. In Case 1, the bank does not view it as a strong capital advantage, but it has selected to open a large scale local branch network. On the other hand, in Case 6, the bank believes that if one branch can cover the customers all over the country, then opening more branches does not make sense. Both banks call themselves a regional bank rather than a global bank.

As shown in Table 8.2, the data suggest capital requirement has put pressure on some cases; i.e., Cases 2, 3, 4, 5, 6, and 7, because opening branches is more expensive. Different from these banks, what concerns Cases 1 and 9 more is how to accelerate the speed of opening more branches. For Cases 8 and 10 banks do not view the capital requirement as a critical issue. The response of the ten banks has partially confirmed what the bank groups have identified already indicating that regulations on market access has caused banks to behave similarly, but not across all the cases. Those with a stronger BSR profile seem to be able to cope with the restrictions in this respect.

Table 8. 2 Restrictions on the Market Access

	Impact from Restrictions of Market Access (location, scale, speed of branch expansion)	Main Concern
Case 1	Because of the rules, we can only set new sub-branches <u>one by one</u> . We should be free to open sub-branches as long as the Parent Bank can provide the resources.(1.5/S-GM/OPE)	speed
Case 2	The local regulation only allows branch opening at a certain <u>speed</u> . The cost of the ticket is very <u>high</u> because you need to put in a lot capital and everything for every branch.(2.3/M-CRE)	cost
Case 3	First you do not have to put equity into a branch. It is peculiar to China that first you need to meet <u>capital</u> requirement to open a branch. It is an issue for foreign banks in China because not only is the capital requirement high but it is also at the level of each legal entity you have.(3.2/S-GM)	cost
Case 4	You know if we open branches and rely on our own ability the cost is too high... This is not a small amount of <u>investment</u> that is needed for opening a branch.(4.3/M-MAR)	cost
Case 5	We know normally they won't turn down our application for another licence, but it is a <u>time</u> issue or procedural issue.(5.1/M-MAR)	speed

Table 8.2 continues

	Impact from Restrictions of Market Access (location, scale, speed of branch expansion)	Main Concern
Case 6	One of the big constraints is the requirement of regulatory <u>capital</u> for branches, which means we over capitalised and it is not a very effective tool because for us, we do not have lots of lending, so each time we get a new licence, we have to put another hundred million RMB in.(6.1/S-REG)	cost
Case 7	Personally, I think opening a branch is very <u>expensive</u> including the rental for the place and other expenses while the business development is not necessarily good.(7.1/S-OPE)	cost
Case 8	n/a	
Case 9	We have to get approval and that approval <u>takes time</u> and often get declined. So we try to open as many branches as we can.(9.2/S-MAR)	speed
Case 10	The restrictions in certain areas such as other cities where you can open the branches is not within the WTO. That is to say that some restrictions will continue.(10/1/S-MAR); the expansion of a branch network of your own, to have a larger market share <u>only by organic growth</u> is <u>impossible</u> .(10/S-MAR)	speed

8.4.4 Impact by Specific Operational Control

The regulatory constraints also stem from the complication in practice, as suggested in the analysis in Chapter 7. Two regulatory changes are used to examine banks' behaviour. One relates to regulation of the interest rate, the other relates to the foreign debt quota. The former concerns the pricing and opportunities of making profit, the latter concerns the scale of business in foreign banking.

The interest rate regime in the local market is only liberated in the inter-bank market. Interest rate, in a liberalised market suggests the potential profit that banks could generate from the interest-based business. As shown in Table 8.3, a comparison across banks in response to the regulations on interest rates suggests that banks have different views about whether the regulations have brought benefits to them. The data show that Cases 1, 3, 8, 9 and 10 believe the existing interest rate control has a negative effect on their development; the real competition in the market is restricted, hence banks with greater advantages are put in a similar position to the less competitive ones. The other cases actually believe if there is impact they benefit from the interest rate control because of the protection from severe competition. The response of the ten banks has partially confirmed the bank groups identified already, indicating that regulations on interest rates has caused banks to behave similarly, but not across all the cases potentially.

The funding issue is more complex as reviewed in Chapter 2. Foreign banks cannot take local deposits because of the restrictions on business with individuals. Even with the funding taken from the parent bank, a branch in the local market has to apply for a quota. As shown in Table 8.4, the quota sets an isomorphic, negative effect on banks which are all constrained by their funding from the parent bank. However, Cases 8 and 9 have given no comment. In addition, Case 10 believes such an issue is manageable. Case 1, however expressed a negative effect like all the rest of the other banks. This response partially confirmed the impact of regulations but not in a conclusive way across all the cases.

Table 8.3 Restrictions on the Operation – Interest Rate

	Impact from Restrictions of Market Access (Interest Rates)	Nature of Effect
Case 1	While the interest rate is not determined by the supply and demand in the market, there could be a more <u>negative</u> effect on the foreign banks.(1.5/S-DGM/OPE); the interest rate control may <u>protect</u> us, but in the meanwhile it does not allow flexibility. This is the good and bad side, on which it is difficult to give a clear-cut judgement.(1.8/S-DGM/MAR)	negative + positive
Case 2	The interest rate is <u>good</u> for us because we are making money. When interest rates becomes more liberalised, there will be more competition; our lending business and interest rates will fall. There is the possibility that we will decrease margins.(2.1/S-GM)	positive
Case 3	Because the interest rate is regulated, it makes no difference if a Chinese corporate borrows from a Chinese local bank or a foreign bank. Unless we can offer cheaper than the local banks, for the same products, multinationals are more likely to approach us. In other words, if I want to gain a Chinese corporate, I must have competitive conditions.(3.1/S-MAR)	negative
Case 4	According to the regulations, a deposit under USD 300 million has to follow a fixed interest rate. The amount above that level can follow LIBOR or the market rate. Once we get the derivative licence, we can do options. In this way, we enhance our competitive advantage.(4.3/M-MAR)	positive
Case 5	Regarding the rules on interest rates, since it they are regulated, this restricts the competition. You may say it has a certain <u>positive impact</u> . But foreign banks and domestic Chinese banks operate under the same rules of interest rates, such a protection is arguable. If interest rates are relaxed, for banks that are strong in financial sources, the relaxation may bring greater benefit to them. (5.2/S-OPE)	positive

Table 8.3 continues

	Impact from Restrictions of Market Access (Interest Rates)	Nature of Effect
Case 6	The regulation of interest rates of RMB mainly protects the local Chinese banks. It can ensure a relatively large interest gap to support the local banks. This does not affect us much because lending is not our main business.(6.2/M-MAR); Sometimes we feel the benefit of regulation. For example, the spread of interest may be beneficial, it would be different if interest rate was totally relaxed.(6.1/S-REG)	no impact
Case 7	For interest rate regulation, the interest rate for foreign currency is liberalised. Foreign banks can decide the interest rate according to profitability. However, the RMB interest rate is restricted by the term. This is relatively beneficial to foreign banks because the deposit interest rate is comparatively low, deducting our cost of capital... That is why most foreign banks start their business from a loan business, because it is profitable area. (7.1/S-OPE)	positive
Case 8	The fixed rate scheme in some cases really affects the risk-return discipline on both sides. Eventually it translates a higher risk to the system. The better risk-rated people compensate, i.e. do not differentiate the winners and the losers from the market.(8.1/S-MAR)	negative
Case 9	When rules on RMB interest rate is relaxed, the local bank will face a major issue. They may not manage their CRM. I think before the interest rate could lift up, the CBRC or PBOC should build up the interbank market in a more proper way. Otherwise the one who on the down side and who will be hurt will be the local bank.(9.1/S-GM)	negative
Case 10	When people argue that foreign banks actually benefit from the regulation of interest rate, I would say it depends on how they manage their treasury. Every bank has a particular forecast on where the currency will move upward or downward and then forms their strategy on how they are going to manage their funding and exposure.(10.2/S-GM)	negative

Table 8.4 Restrictions on the Operation – Foreign Debt Quota

	Impact from Restrictions of Market Access (Foreign Debt Quota)
Case 1	A typical current issue is the quota on foreign debt. The definition of foreign debt has changed. According to SAFE, all capital from the Parent Bank is treated as foreign debt. The branch needs to register and apply for foreign debt quota with the National Development and Reform Commission (NPRC) every year. We have to apply around May or June each year giving our estimated requirement for foreign capital. The approved amount is usually <u>less than required</u> . (1.3/S-DGM/OPE)
Case 2	Regulations such as short-term and long-term debt quotas possibly <u>restrict our growth</u> . I know other German banks want to make loans but they cannot because they come up against the long-term debt quota. I hear that repeatedly. It restricts the growth potential.(2.1/S-GM)
Case 3	n/a
Case 4	The most influential regulation is the <u>control</u> of foreign currency. In the past, if a foreign branch lent credit in foreign currency to a firm in China, the loan was regarded as foreign debt... SAFE issued foreign debt quotas to each foreign bank branch. Therefore, each year, the branch has to apply for a foreign debt quota.(4.3/M-MAR)
Case 5	When we make foreign currency loans, this is called foreign debt. Foreign debt must be to some extent within the <u>limit</u> . Every company has a limit. We cannot lend money exceeding the limit.(5.1/M-MAR)

Table 8.4 continues

	Impact from Restrictions of Market Access (Foreign Debt Quota)
Case 6	The current <u>constraint</u> is the short-term foreign debt quota. This rule is critical. The short-term foreign debt quota is set for foreign banks that need to borrow money overseas...The amount I can borrow overseas must comply with the applied quota. If the quota is not enough, I can then not satisfy my FI customer. We need to apply for the quota continuously; other than that there is no other solution.(6.2/M-MAR)
Case 7	The way that the foreign dept policy may <u>constrain</u> our business...a foreign bank normally will borrow from the Parent Bank or may borrow by interbank from a Chinese bank with the guarantee of the Parent Bank, which is also treated as foreign debt. The requirement limits the allowed financing scale of any enterprises.(7.1/S-OPE)
Case 8	n/a
Case 9	n/a
Case 10	On the corporate side of foreign debt quotas, the regulatory obstacles are more or less on the company side. Apart from some, like funding of foreign debt quotas, which I think are manageable. Rules on quotas have their <u>downside</u> but are manageable.(10.2/S-GM)

8.4.5 Response under Regulatory Constraints

Although banks are facing the same regulatory environment, the way they respond to the changing regulatory conditions is different. The data also show that banks respond to restrictions on the business scope at different speeds. Once certain dimensions of business scope, in terms of product, customers, and areas are opened, all the banks are not ready to expand with the same speed of response.

The data show that the impact of regulation impacts on the bank decisions together with the market structure. Each individual bank responds to the market demand relative to its strategic entry motive in different ways. That is why some banks wish to expand further in the deregulated areas while others have slower or no responses at all. The data suggest two dimensions in which banks respond to the joint effects of regulatory constraints. One is the attitude to the stability of the regulatory conditions; the other is the ability to mitigate legal risks. The data show banks differ in both aspects.

As shown in Table 8.5, each case shows its attitude to the regulatory environment in different way. Three types of attitudes are shown. Cases 2, 6, 3 and 7 represent one type of bank which is more sensitive to the liberalisation of certain areas. Cases 4 and 5 are less sensitive and all they wish to do is to understand and comply with the regulations. Cases 1, 8, 9 and 10 did not raise comment in any particular area; rather, they are regulation-driven in all areas.

Similarly, the data also show banks have made different investments to mitigate regulatory impact. The confidence and ability to deal with regulatory impact are different across cases. As shown in Table 8.6, banks have differing abilities to influence the regulator. Cases 1, 8 and 9 believe they are not only proactively complying with the regulatory changes, but also influence the regulators. Other banks are mainly the complying with the regulatory changes, with less power to influence the regulators.

Table 8.5 Different Attitudes to Regulatory Constraints

	Perception of Stability of Regulation	Effect on Bank Behaviour
Case 1	In general, I feel the business environment is over-regulated. Foreign banks are introducing competition to the local Chinese banks.(1.3/S-DGM/OPE); I can understand why businesses are separately supervised and regulated by CBRC, CSRC, and CIRC. We won't lose opportunities if the market is further opened in these areas. (1.4/S-DGM/MAR)	sensitive to all areas
Case 2	If I take the perspective of German or foreign financial service providers, these rules and regulations are highly disturbing because they restrict our growth potential.(2.1/S-GM); The regulatory environment in certain ways is getting worse because the regulator now has started thinking of topics which were not topics at all a few years ago.(2.3/M-CRE)	sensitive to specific areas
Case 3	There are so many rules and regulations constraining our marketing activities. It can be viewed from different stages. In general, such constraints are getting less and less and the impact is less severe. But it does not mean that our business environment is more liberalised. In certain areas, the conditions are getting stricter and more stringent. (3.1/S-MAR)	sensitive to specific areas
Case 4	The only way to handle regulation is to face the conditions, but the worst thing is that the rules and regulations cause unhealthy competition between the Japanese banks and with foreign banks. (4.2/M-OPE)	understand and comply
Case 5	We believe we cannot take the risk of not to complying with the regulations. I believe a good record of compliance is very necessary for the opportunity of future development.(5.2/S-DGM/OPE)	understand and comply

Table 8.5 continues

	Perception of Stability of Regulation	Effect on Bank Behaviour
Case 6	The regulators are trying to change and they are moving very fast (6.4/S-GM); Our business is very much regulation-driven. If there is area opened up and we want to enter that area, when it is no longer allowed we stop.(6.4/S-GM)	Sensitive to specific areas
Case 7	...as a foreign bank you cannot make money across all the products.(7.3/S-COO); ...But for foreign banks in China, the general direction favours foreign banks in the bigger picture. But, if talking about the specific rules, that is a different example. (7.2/S-MAR)	Sensitive to specific areas
Case 8	...there is mismatching between the supply and demand. So the challenge really is the pace of the regulation or the direction of the regulation or liberalisation.(8.1/S-MAR)	Sensitive to all areas
Case 9	We can see how the regulation is now becoming more and more open. You can see that now the regulators are helping us to do business more and more.(9.1/S-GM)	Sensitive to all areas
Case 10	In general, regulations have been more relaxed over the last years. Now we are able to do both foreign currency and RMB business. We are able to serve all groups of customers.(10.1/S-MAR)	Sensitive to all areas

Table 8.6 Mitigating the Legal Risk

	Evidence of Mitigating Legal Risks	Main Approaches
Case 1	We are very active in meeting the compliance requirement. Sometimes I have to consult with the regulator in person. We also need to strengthen the internal communication. (1.3/S-DGM/OPE); the regulator has regarded our Bank as the flagship bank due to our expertise in the mortgage sector. When the regulator formulates any rules our feedback could be influential and beneficial to the bank.(1.3/S-DGM/OPE)	Active complier + Cooperator + Influencer
Case 2	I would say we react to regulation as actively as possible.(2.2/S-COO); You first have a product or a service which has a competitive edge and then go to China. With such a superior product or service you are welcomed to China because the Chinese authority welcomes you to get know-how.(2.1/S-GM); I would say as a single foreign bank or even via the banking association or taking the lobby approach, you normally can only change things in a very limited way.(2.2/S-COO)	Active complier + Cooperator
Case 3	n/a	
Case 4	Not only in China, but also in other markets, Japanese banks pay very strong attentions to compliance. We set up a department independently. Although our compliance manager sits in one department, he actually has the right to negotiate directly with the Parent Bank. The role is important and relatively independent from other departments of the branch.(4.2/M-OPE)	Active complier
Case 5	When regulations change, the first thing is to comply and to find solutions for our business. In terms of how to comply with the local changing regulations, of course the branch should be the first to consider, but we need the support of the Parent Bank. After all, the adjusted action has to be approved by the Parent Bank.(5.3/M-CRE)	Active complier

Table 8.6 continues

	Evidence of Mitigating Legal Risks	Main Approaches
Case 6	The business challenges for foreign banks are big questions. I think we follow the local regulations very closely because we are foreign banks. In terms of the challenges I think you have to really understand what the legal environment is here.(6.4/S-GM)	Active complier
Case 7	... we have to deal with four or five regulators, you know PBOC, CBRC, SAFE, and CSRC you name it ... know how we have to play to make sure the regulations are complied with.(7.3/S-COO)	Active complier
Case 8	We certainly try to stay as close as we can to the regulator who is forming or developing the new regulation so that on the one hand, we can prepare ourselves earlier to comply with the regulations. On the other hand, for certain regulations we will have a chance to develop new business. Certainly if we have an earlier insight, we can have a better competitive advantage. ...what we can do is become trusted advisor, and share our experience and be best trusted elsewhere. We have a chance to influence the process so that when the rule is out, the rule is fair, the rule is practical, the rule is the best it can be with global experience.(8/1/S-MAR)	Proactive complier + Coordinator + Influencer
Case 9	But you are in China. Any regulation must have its reason. The only way is to comply... What we do is to face the facts and use the channels to tell and convince SAFE the effect is actually to kill the bad people and kill the good people as well.(9.1/S-GM); What you can do is to work with the corporate and the regulators and the parent company to make sure that the bank's position is sufficiently covered to the bank's satisfaction. That is of course one of the joys of doing business in China.(9.2/S-MAR)	Proactive complier + Coordinator + Influencer
Case 10	For the people working the operation they have to be able to professionally implement regulations from CBRC, SAFE etc. to make sure the operation is in compliance. Operations people and compliance people are the mainstream staff we require to run our business.(10.2/S-GM)	Proactive complier

8.5 Chapter Conclusions

This chapter continues the data analysis in order to answer the two research questions. Methods used to present and analyse the data include matrix, grouping techniques, scenario projection, and pattern-matching techniques.

Two steps are followed to group the ten cases. First, bank groups are identified along five key decisions which emerged from previous cross-case comparisons. As a result, four bank groups are identified. Second, bank groups are further confirmed by only looking at the two main decisions, i.e., the entry motive and the entry mode decision. The dynamics of the entry decisions made by different bank groups is re-examined.

The bank groups are identified based on the maximised similarities of decisions that cases in each group have made. Four bank groups represent different patterns of decisions. The characteristics of Group (I), i.e., Cases 2 and 6, Group (II), i.e., Cases 4 and 5, Group (III), i.e., Cases 3 and 7, and Group (IV), i.e., Cases 1, 8, 9 and 10 are discussed in terms of the four areas of entry decisions. The results show, in each group, that the four decisions are interrelated and consistent.

Regarding the differences within the group and the tendency of future changes, decisions in particular cases are further analysed based on different scenarios. Five scenarios (A), (B), (C), (D) and (E) are projected and the rationale of the occurrence of each scenario is discussed. The analysis through scenario discussions confirms that the current grouping result is reliable. The four bank groups indicate the different strategic positioning of the ten cases in response to the market and regulatory conditions.

With respect to the ownership-specific advantages, the analysis focuses on bank specific resource profiles based on five dimensions. The results show that the pattern of the profile of bank groups matches the pattern of decision made by the bank groups identified already. The analysis also examines global strategy to see its relationship to the decision for the local market in terms of geographical segment policy and product/service policy.

The ownership-specific advantage is examined. The analysis first examined five key dimensions of the bank-specific resource (BSR). Comparison across the cases shows that the ten cases have different advantages and disadvantages in their BSRs. The differences in the BSRs suggest that banks try to sustain their existing advantages in the local market. As a result, four types of BSR profiles are identified, which approximately match the pattern of decisions identified already. The analysis of BSR profiles shows local knowledge and experience, and global network are crucial resources for determining a bank's behaviour in the local market.

Bank size shows mixed results as a crucial resource, given the fact that banks with smaller sizes, such as Case 1, may have made similar decisions to the large sized banks such as Cases 8, 9 and 10. It also shows that banks with similar home origins tend to behave similarly, such as Cases 4 and 5. But this is not always true given the example of Cases 2 and 7, which are both from the same market origin but they belong to a different pattern of decision.

The BSR profile is related to the global strategy in terms of the geographical segment decisions and product segment decisions. The comparisons across the cases show that the ten cases have different emphases on the market in their geographical segments. The ten cases also have different emphases in resource allocation for each of their geographical market segments. They also have different foci on the product and services, which may influence their choice of market seeking decisions. The business they have been involved in the past indicates why a similar product segment is sought, or not, in the market in China.

Experience in conducting similar product segments in a similar market is important. In Cases 3 and 7, retail banking has not been conducted widely. However, the experience in other emerging markets gives confidence to the bank to try a similar conduct in the local market. Those with experience in retail banking show strong confidence in conducting retail banking in the local market such as Cases 8, 9 and 10. For those which decide to be involved in retail banking, the low BSR profile in the local network suggests why these banks are active in expanding local branch networks, and why an

alternative entry mode is more meaningful to them in order to have a local branch network quickly.

As a result, the impact of ownership-specific advantages on the behaviour of the cases in the local market is proved. The findings suggest the ownership-specific advantages have determined the entry motive decisions, hence the entry mode decisions. Because of the differences in bank-specific resources, each bank group has different decisions in allocating existing resources to the local market, which is in line with global strategy.

With respect to the location-specific advantages, the analysis focuses on the impact of three areas of regulatory constraints, including restriction on business scope, on market access and in practice.

The results suggest that the ten cases have shown similar behaviour to respond to local market conditions. The potential competitive advantages from their ownership cannot be fully played in the local market. This is reflected by bank groups tending to converge into larger groups when specific responses to the regulation and regulatory changes are examined.

Despite the converged response to the regulatory impact, the extent of that impact relies on bank-specific resources. This is demonstrated by the fact that a group of cases consisting of Cases 1, 8, 9 and 10, is more capable of maintaining their ownership-specific advantages under the regulatory impact. The other bank groups, although having made distinct strategic entry decisions, tend to have similar responses to the regulatory impact. Competitive advantages to be generated by the ownership-advantages are repressed in those groups. In regard to regulatory changes, both anticipated and unanticipated, bank groups have different sensibilities and capabilities to mitigate the potential risks, hence influencing the strategic entry decisions.

Chapter 9 Discussion on the Theoretical Validation of the Findings

9.1 Introduction

This chapter discusses and interprets the findings. The findings include the industry level analysis results shown in Chapters 2 and 3 and the bank firm level analysis results presented in Chapters 7 and 8. These findings are compared with the existing literature and with arguments on the main theories of the eclectic paradigm adopted in this thesis.

In Section 9.2, the findings are compared with the existing literature in four dimensions. First, the findings are discussed in the concept of entry strategy to address the meaning of entry strategy in this thesis. Second, the findings are discussed based on different strategic entry decisions of the MNB. The research question of whether the entry strategies of the MNBs in China are different is revisited. Third, the research questions of why the entry strategies are different and the regulatory impact on the formation of entry strategy are discussed according to the research propositions. Fourth, the findings regarding the decision patterns, as identified in this thesis, are compared with the existing literature. Finally, in Section 9.3 conclusions are made regarding the main findings.

9.2 Comparing the Findings with Previous Literature

9.2.1 Findings in relation to Concept of Entry Strategy

For the purpose of studying the formation of the entry strategy of the MNBs in China, the concept of entry strategy is built up in this thesis. Based on the literature from both the strategy and international business domain, and also from observation of foreign banking in China, the concept of entry strategy specific to this research is developed.

The findings show that the concept of entry strategy has been appropriately defined both in terms of its content and in the researchers' assumptions of the meaning of strategy process.

i) Contents of Entry Strategy

Previous studies on entry strategy have mostly focused on the entry mode decision (e.g., Buckley and Casson, 1998; Meyer, 2004). In their studies, the entry mode decision, i.e., which entry mode to choose or how to enter, is automatically treated and termed as the entry strategy of the multinationals.

However, using the above approach to define the entry strategy is found to be an over-simplified and narrow view when it is applied to the MNBs in the banking market in China. The industrial level analysis, as discussed in Chapters 2 and 3, suggests that, specific to foreign banking in China, MNBs have to make the same or similar entry mode decision – most of them have to choose the branch as the main operational form in practice. Based on this, and from the traditional view of entry strategy, the conclusion that these banks have the same entry strategy is made.

This thesis argues that the traditional view of entry strategy neglects other important strategic entry decisions. It neglects the importance of the entry motive decision, which is concerned with why the MNBs need to make their direct investment. It also neglects decisions in relation to how to make direct investment such as what products, which location and when to make the direct investment control the risks. These decisions are in fact considered together. They cannot be made one at a time, rather they need to be justified based on feedback from implementation (Root, 1994).

To pursue the answer to the question of whether the MNBs in China have the same entry strategies, which is the primary research question in this thesis, a different approach to define the entry strategy is needed. In this thesis, entry strategy concerning an international market is a multidimensional issue. Not only is the entry mode decision considered, but also the entry motive decision. Besides these two decisions, others

regarding implementation in the host market are also considered, namely, the management control decision and the marketing orientation decision.

According to the content of entry strategy as described above, we assume only when the MNBs consistently make the same choices in different dimensions of decisions, are they regarded as a group of banks with the same decision pattern or having the same entry strategy. The results of research show that MNBs in China have different entry strategies. Furthermore, this study identifies four decision patterns across the MNBs under investigation, as shown in the analysis of Section 8.2.

Methodologically, the benefit of integrating different entry decisions into the concept of entry strategy is found in two aspects. One benefit is that judgment about using the same entry strategy is not by one dimension but by multiple dimensions. This approach is more comprehensive by looking at the entry strategy in order to identify how differences may exist in the entry strategy. The findings suggest a judgment made only by one dimension which generates the result that the MNBs have the same entry strategy is in fact misleading.

The other benefit is that by addressing different dimensions of decision together, we are actually looking at relationships among those strategic entry decisions. The mechanism to govern the interplay of these decisions can be observed. This is different from previous studies which have focused only on the entry mode decision. In this research, the mechanism that governs the relationships between the four strategic entry decisions forms the unit of analysis. By analysing the interplay of different decisions, why four decision patterns emerge is further explained.

In summary, the identification of four decision patterns proves that the way to define entry strategy can provide more opportunities to guide the observation of the phenomena in a more comprehensive way. This new approach offers an opened view of theoretical bases to explain the entry strategy in both a predictable and an unpredictable way – following the retroduction logic of reasoning as suggested in Chapter 6. Without decomposing the contents of entry strategy into different aspects, it is hard to know how

the MNBs are different; hence it is difficult to support the argument that the entry strategies of the MNBs in China are different.

ii) Process of Entry Strategy

Besides the development of the contents of entry strategy, four interrelated hypothetical positions regarding the meaning of process in the concept of entry strategy are developed. The hypothetical positions are derived from the strategy literature and also based on the observation of the research context described in Chapters 2 and 3. The hypothetical positions are evidenced and proved in the findings, with each position discussed below.

First, we argue that entry strategy has its role to sustain competitive advantages in the process of internationalisation. No matter how we define the contents of entry strategy, either by following the traditional approach to focus on the entry mode decision or by following the comprehensive approach to focus on several areas of decision, entry strategy should be able to reflect a core analytical issue in the study of the MNB (Grubel, 1977; 1985) which is why the MNB can be competitive in the host market.

The findings suggest internal resources are the central issue in the mechanisms that govern the configuration of different decisions. This argument is more obviously proved when a configuration of entry decisions needs to be changed as a new opportunity appears. For example, when an alternative entry mode, i.e., acquisition, becomes an available choice, it is evidenced in Section 7.3.3 that all the MNBs covered in this research have considered how to take the acquisition opportunity based on their existing and potential access resources, although the final results of their decisions are different.

The above assumption regarding the role of entry strategy suggests no matter what the MNBs claim regarding whether they have entry strategy or not, in reality they all have to make a choice when facing the changing conditions for the purpose of sustaining competitive advantage in the host market. The findings suggest at a particular point in time, the strategic entry decisions of the MNB appear as a decision pattern. The mechanism governing the formation of the pattern influences their responses to new

opportunities. These findings are consistent with Dunning's (2001) argument that the response of the MNE at one point in time may influence the decisions at another moment.

Second, we assume that entry strategy is a process of learning because of the impact of emergent factors. In this thesis, strategy is both formulated and formed in the process of internationalisation. The former suggests strategy has a predicable part, the latter suggests strategy has to rely on learning new information from the environment.

The findings suggest learning is crucial for the formation of the strategic entry decisions of the MNB in China. The MNBs have to learn knowledge regarding the host country, industry, competitors, and regulators. They have to keep updating and understanding the changing regulations in particular. The assumption that learning is important, as addressed by Mintzberg *et al.* (1998) in their argument of emergent strategy, is confirmed. The findings are in line with the argument by Araujo and Rezende (2003) that knowledge and commitment are self-reinforcing. The results presented in Section 7.2.3 show that learning is a prerequisite for seeking knowledge, which is one of the motives for the MNB to have a physical presence in the market in China.

The assumption regarding learning is that the strategic entry decisions tend to be formulated using incomplete information. In the banking market in China, the frequent changes in regulations cause more uncertainties. The study finds not only knowledge, in particular regulatory knowledge, but also the ability to interpret the knowledge to make banking policies are important for all the cases in forming the entry strategies. In this study, the banking policies mean lending policies in corporate lending business.

Third, we assume strategy is a process to achieve multiple outcomes. According to Whittington (1993), individual firms can have different perceptions of what strategy outcome is expected from strategy. Depending on different firms, the outcome of entry strategy can be focused on profit-maximising or on other outcomes such as market expansion.

The findings prove the MNBs have different degrees of agreement to the emphasis placed on the profit-maximising outcome. In Cases 2 and 6, profitability is the top priority. In Cases 3, 4, 5 and 7, profitability and market share are of equal importance. In Cases 8 and 10, seeking market share seems to be important although profit-making should always be the prime consideration.

The assumption of the outcome of entry strategy helps to explain why the MNB potentially makes different commitments. We find that the MNBs that focus on profitability tend to limit their resource commitment to the local market because the investment may not generate immediate return and is therefore considered to be full of risks. In contrast, the MNBs that focus on a long-term return and an emphasis on market share tend to make prompt and stable resource commitments.

Fourth, we assume strategy is a process to justify intended plans through implementation. Based on this assumption, how entry strategy is formed based on the implementation of decisions at the business unit is explored from the bottom up.

The finding is in line with the argument by Peng and Luo (2000) that strategy is formed from the outcome of a stream of smaller decisions in the implementation. In fact, operation by the local branch plays an irreplaceable role in the formation of the entry strategy. In all the cases, the parent bank is constrained by the availability and quality of information in the local market. As analysed in Section 7.2.3, all the cases suggest that they have to use the information collected by the local branch to make their decision. Most branch managers intimated that only people working in the branch in China know what the market really is.

The implication of the bottom-up approach in the formation of the strategic entry strategy suggests it is important to have a physical presence in the local market. The findings suggest even with the presence in the local market, it is very difficult for the local branch to search for quality information. Not only the new entrants but also the earlier first movers expressed difficulties in acquiring valuable information in China.

In summary, different from previous studies, in this thesis, entry strategy has two dimensions of its meaning. First, there are at least four main decisions as constituents of the contents of the entry strategy. Second, the meaning of the strategy process is reflected by its role to sustain competitive advantage in a continuous process of internationalisation, in which learning plays a crucial part in justifying the decision. The process also means the MNBs are not able to achieve the final goal easily but have to target multiple outcomes and rely on implementation to suggest whether decisions are feasible or not.

9.2.2 Findings in relation to Strategic Entry Decisions

The first research question in this thesis is: “*Are the entry strategies of the multinational banks different in China?*” The findings support the view that entry strategy, which consists of strategic entry decisions in four dimensions, namely, the entry motive decision, the entry mode decision, the management control decision and the marketing orientation decision, is different across the ten cases covered in this thesis. Compared with existing literature the findings are discussed in each dimension of the decision below.

i) Entry Motive Decisions

Literature (Dunning, 1993) suggests four typical reasons for the MNB to make direct investment; these are: market seeking, efficiency seeking, resource seeking and strategic asset seeking. The findings strongly support the market seeking motive of the MNBs in China. In addition, the knowledge-seeking is evidenced and is regarded as a resource seeking motive when information can be argued as one type of resource. In comparison, the efficiency seeking and the strategic asset seeking are not directly reflected in the findings.

According to Dunning (1993) efficiency seeking implies the MNBs make investments in China in order to exploit the economies of scale. However, there is no direct evidence to suggest efficiency seeking is the initial motive for entry. There is evidence to prove that the MNBs follow the existing clients not only because of the fear of losing the

clients but also because it is cost effective to serve the existing clients. This evidence partly supports what Dunning (1993) meant by efficiency seeking. It confirms Root's (1994) argument that, according to the explanation by Brouthers *et al.* (1996:360), one of the motivations for the establishment of the MNE is "low-cost production-seeking".

According to Dunning (1993) strategic asset seeking implies the MNBs are driven to entry into the market in order to acquire assets to supplement the existing assets. However, acquisition – the main approach for seeking strategic assets – can only be adopted by the MNBs after they are present in the local market. Therefore, acquisition in this study is unlikely to be treated as the initial motive of entry; rather, it is regarded as an alternative entry mode. Nevertheless, the asset seeking behaviour is evidenced in the behaviour of the MNBs. The findings suggest that all the MNBs agree that to quickly acquire assets such as network, experience and knowledge, and customer base, acquisition should be made.

The reasons for the lack of evidence on efficiency seeking and strategic asset seeking as the initial entry motives are found to be related to the location-specific factors. Efficiency seeking is unlikely to be the motive when the physical presence of the MNB is constrained by different regulations. Strategic assets seeking is not practical when regulations restricted the MNB to acquire local banks in the past, and only those that are already present in the local market may have the opportunity to make the decision.

Besides market seeking, this research confirms that knowledge seeking is one of the main reasons for the MNB to make direct investment. Araujo and Rezende (2003:723) argue that knowledge can be acquired incrementally but the pace is governed by the ability of the firm to absorb and assimilate new knowledge about internationalisation processes. All the cases in this study adopt the approach of incrementally acquiring local knowledge. But in the meantime, the findings show that some MNBs are more capable of acquiring local knowledge than others, as shown in Section 7.2.3.

ii) Entry Mode Decisions

Fu (1998) suggests several entry modes for the MNBs in China, namely, exporting which is equivalent to correspondent banking, joint venture, and sole venture which includes the wholly owned subsidiary or a branch. An industry level analysis in Chapter 2 shows that branch entry mode is the dominant approach taken by the MNBs in China. Empirical studies (e.g., Ball and Tschoegl, 1982; Goldberg and Saunders, 1981a, 1981b) suggest the branch as the dominant entry mode choice is not peculiar to China.

Besides the branch entry mode, the findings suggest that all the cases have given attention to the alternative entry mode choice, which is acquisition through making a minority equity investment in the local banks in China. Evidence shows that the MNBs have different approaches to conduct acquisitions in terms of selecting different types of local partners as shown in Section 7.3.3.

The findings support the argument that the MNBs make different strategic entry mode decisions. Since the branch is the only main entry mode, this study analyses the detail of branching decisions of the MNB of which very little has been found in previous literature. The findings demonstrate that even under the same branch entry mode, the MNBs have adopted different approach in making specific branching decisions. Specifically, the MNBs differ in terms of the scale, scope and speed of establishing branches, as shown in Section 7.3.2.

It is found that branch and acquisition entry modes do not exist in isolation. The pattern of branching decisions suggests different reasons why an acquisition decision is made and made in certain ways. The findings confirm the argument of Neuberger (1998) about the high heterogeneity of banking products. The findings suggest the importance of having multiple entry modes for foreign banking in China in the future.

iii) Management Control Decisions

Closely related to the entry mode decision is the concern of the control issue. Literature suggests that once the entry mode is chosen, the level of control is determined (Chang

and Rosenzweig, 2001). This study demonstrates why branch entry mode is adopted because of the need of a high level of control by the parent bank. In comparison, acquisition means different levels of control depending on the proportion of equity share of the investor.

In focusing on the branch entry mode, this research looks into the control measures taken across each MNB as analysed in Section 7.4. The findings confirm that the branch mode provides a platform for the parent bank to implement both prompt support and close monitoring of its operation through three measures, namely, the structure control, the authority control and the personal control. According to the Integration-Responsiveness (IR) framework (Prahalad and Doz, 1987), the three measures in this specific context tend to serve for the integration of the local branch with the parent bank more than the responsiveness of the local branch to the local market.

With regard to the control issue in the acquisition, the findings confirm management control is one of key concerns across the MNBs. A strong institutional impact is evidenced in that the MNBs can only have a minority share in the equity investment thus it is difficult to become involved with management control. With a low level of management control there are many uncertainties, as demonstrated in Section 7.3.3. The findings support the argument of Cho (1985) that in reality acquisition may offer limited potential for developing new business.

iv) Marketing Orientation Decisions

The concept of marketing orientation is adopted specific to this research following the argument of Kohli and Jaworski (1990). In this research the concept is viewed from an international perspective. The concept of the marketing orientation decision is viewed differently from the traditional view of the marketing decision. The latter is normally regarded to have mixed approaches such as products, pricing and promotion. In this research, as part of the entry strategy, the marketing orientation decision is argued to be concerned with the customers first, which is a central concern of the service MNE.

This study finds that identifying and maintaining customers is indeed the top concern of the MNBs. This finding is in line with the argument of Kasper *et al.* (1999). The MNBs have to decide to whom they should offer their service and product first. In comparison, other factors such products, pricing and promotion have been less important under the impact of regulation. The reasons for the relatively less importance of the other factors are explained below.

Evidence supports the view that products have not been the crucial issue in the past because, by regulation, what could be offered by the MNBs to the local market has been very limited. Regarding pricing policy, because of the regulations on interest rates, the MNBs are not able to make pricing policy as they are in a free market. However, as the interest rates are liberalised, pricing policy is going to be more and more important. The MNBs are also restricted in their advertising and promoting their products through the approach that could be taken by the local banks. Under the above institutional impact, the customer, who is an important factor, seems to be more important in the specific context of this research. These findings are in line with the findings by Luo and Park (2001) with regard to the behaviour of the MNE subsidiaries in China.

Kasper *et al.* (1999) suggest two strategic approaches can be made in marketing orientation decisions: to follow the clients, or to search for the clients. These two approaches are both evidenced and are the two main concerns of the MNB. In this study, all the cases have adopted the “following the client” approach, as shown in Section 7.5.2. In fact, as argued already, it is an approach that the MNBs involved with less investment, have relatively more control of risk and a higher return. In contrast, “searching for the client” is the approach that requires more information, unknown risks and a small margin of return in the context of corporate lending business.

The decision to balance between the two marketing orientations is found to be related to the ability of the MNB to control risk. As indicated in the analysis result in Section 7.2.2, those with a higher ability to manage the risk tend to shift to “searching for the client” approach and are aggressive in committing more resources to the local market. In contrast, those who lack the ability to manage the risk may tend to stick to the

“following the client” approach and commit limited but necessary resources to the local market.

9.2.3 Findings in relation to Research Propositions

i) Reasons for Differences in Strategic Entry Decisions

The second research question in this thesis is: “*If the entry strategies of the multinational banks are different in China, why?*” For this research question, the following proposition is developed and supported by the findings.

Proposition 1: The strategic entry decisions of the multinational banks in China are different. The differences are mainly attributed to the differences of the bank-specific resources and the existing strategies of the parent banks.

In terms of the entry motive decision, the findings suggest the main difference among the MNBs is their different motives in seeking different market segments. The argument that both wholesale banking and retail banking are governed by distinct economies of competition (Neuberger, 1998) is fully supported. The study also confirms that to be involved in international retail banking is one of the key market seeking decisions which differentiate the MNBs (Tschoegl, 1987).

In terms of the entry mode decision, the findings suggest that under the same branch entry mode, the MNBs have shown very different approaches to deploy the resource. One is an aggressive approach characterised by an earlier entry, stable speed of expansion for a wider scope and larger scale of local branch network. The other is a very conservative approach characterised by relatively delayed entry, slow speed of expansion for a limited scope and necessary scale local branch network. Correspondingly, those who have taken the very aggressive approach to expand institutional presence through the branch also tend to make actual equity investment in the local banks. Those who have taken very conservative approaches to expand institutional presence either maintain the branch entry mode only or have made

investment in other financial sectors in China.

In terms of the management control decision, the findings suggest that based on the same entry mode, the MNBs have made different structural controls under the pressure of responding to the local market. They are different in terms of the degree to which they decentralise authority in credit lending approval processes. Similarly, they differ in their decisions about whether a local head office should be established to enhance responsiveness to the local market.

In term of the marketing orientation decision, the findings suggest that based on the same entry mode, the MNBs have different views of shifting the focus from the “following the client” to the “searching for the client”. The study finds that the MNBs possess different scales of customer base and potentially different qualities of bank-client relationships, as shown in Section 7.5.2. All the cases demonstrate that the referral is a crucial source of customer and guarantee is the main instrument to mitigate the risk, as shown in Section 7.5.3.

The above differences, it is argued, are determined by the differences in bank resources. The bank-specific resources are analysed with the pattern identified as demonstrated in Section 8.3.2. Certain important bank-specific resources are discussed below.

In terms of knowledge bases, they are viewed as consisting of knowledge and experience of the global market and the local market, impacting on the strategic entry decisions. In this study, all the MNB have different knowledge bases at the global level, but in general they have limited knowledge of the local market especially with regard to regulatory knowledge which is changing frequently. As a result, the one with the most knowledge in certain segments of the global market and with more direct or relevant experience is more confident in exploring the same business in the local market in China. These findings are in line with the argument of Johanson and Vahlne (1977) that market knowledge and market commitment are re-enforcing each other.

In terms of the network, the possession of a network consisting of a global network and a local network, determines the strategic entry decisions. All the MNBs have only a limited local branch network in China. Therefore, it is difficult to start retail banking. A global network brings existing clients through referrals. As a result, the one with the largest scale of network of a wider multinationality potentially has advantages in the local market because the existing network provides the bank-client relationships that the MNBs maintain the internalisation-specific advantages. This finding is in line with the finding argued in Meyer and Gelbuda (2006:154) that “the internationalisation of the firm is an evolutionary process of developing IB (international business) networks that become bridges into foreign markets.”

In terms of human resource, where the knowledge, experience, relation and skills are embedded, the MNBs have a different pool of human resources at the global level; in the local market they all face the same problem that local employees have a lack of skills in international practice experience. Investment in local human resources depends on the entry motive and resource capability. The one with most investment may stand a better chance of competitive advantages. The one that already has skilful personnel at the global level is more able to send those people as expatriates to nurture the local personnel.

In terms of culture, it is interesting to find that the closeness of the bank to the local culture, or knowledge of the local culture is a resource of competitive advantage. Knowledge of culture may exist in the development of all three of the above bank-specific resources; the one with cultural advantages means it knows the form of knowledge that is crucial, the way local human resource is managed, and how to establish and manage a local network. With the knowledge of culture, sometimes represented simply by mastering the local language, resources for the local market are developed in an efficient way, hence saving on cost. The aggressive Group (IV) covers four cases with a strong cultural background in Asia, which confirms the finding of Leung, Rigby and Young (2003:21) that, “banks from Asia have particular cultural and locational advantages in this context” and are more likely to enter and expand in China.

Analysis of the resources profile found that the boundary of the resource is difficult to define. Behind the resources as mentioned above, the size of the MNB, as presented by assets (e.g., Leung, Rigby and Young, 2003), is perhaps one of the crucial factors. It is actually one of the main factors that differentiated the MNBs in the bank-specific resource profile analysed in Chapter 8.3.2. The findings confirm that larger size, greater scale and scope of economies, greater informational and reputation advantages are interrelated.

Two internal factors of the MNB: the bank-specific resource and the global strategy are analysed and grouped into patterns. The pattern from three sides, i.e., the decision pattern as demonstrated in Section 8.2.1, the BSR profile pattern as demonstrated in Section 8.3.2, and the global strategy pattern as demonstrated in Section 8.3.3 are found to approximately match each other, indicating the impact of internal factors on the decision patterns. As a result, *Proposition 1* is supported in this study.

ii) Reasons for Similarities in Strategic Entry Decisions

The third research question in this thesis is: “*To what extent have regulations impacted on the entry strategies of the multinational banks in China?*” For this research question, the following proposition is developed and confirmed by the findings. First the similarities of the strategic entry decision are discussed.

Proposition 2: Under the coercively imposed regulatory conditions and the underdeveloped market conditions, the strategic entry decisions of the multinational banks in China have tended to converge.

In terms of the entry motive decision, the findings suggest that the MNBs have all targeted the market of China. It confirms the argument of Luo and Park (2001:143) that “market expansion is often the primary of FDI in less developed countries”. For a service industry such as banking, literature has suggested that resource seeking is normally not the purpose. However, what is found through this study is that we can argue resource seeking is an important motive when information is regarded as a resource. In fact, in this study, the MNB needs to set up a physical presence in order to

better acquire information, in particular regulatory information, in order to realise the market seeking motive.

In terms of the entry mode decision, it is obvious that the branch entry mode is still the dominant entry mode for all the cases. The branch, however, has no legal entity which provides a platform of high and direct control over the local operation by the parent bank. Regarding the acquisition mode of entry, all the cases, no matter who gets involved or does not get involved have admitted that it is impossible for the MNB to develop the same network as the local bank simply by organic expansion.

In terms of the management control decision, the findings suggest that two control measures, i.e., authority control and expatriate control, are quite similarly adopted across all the cases. It is a common concern that the parent bank tends not to empower high authority to the local branch manager, which is commented on by most managers in general as the right decision. Most cases express that reliance on expatriate control tends to be decreasing. However, all the cases felt that expatriates will be needed for quite a long time if the MNB continues to expand. Also, expatriates are important to maintain the culture of the parent bank to be implanted properly in the local market, as demonstrated in Section 7.4.4.

In terms of the marketing orientation decision, the findings suggest a very similar approach has been adopted by all the cases, which is to follow the existing client. A client referred by the parent bank is one of the main resources in all the cases. In “searching for the client” in the local market, all the cases tend to target the first tier local corporates. The corporate lending is all highly concentrated on the manufacturing industry with the lending facilities for short-term working capital and international trade business preferred, and the customer from the same home origin prioritised.

According to *Proposition 2*, the above similarities in strategic entry decisions are assumed to be attributed to two factors external to the MNB: the market structure and the regulatory structure. The findings suggest that both external factors have impacted the strategic entry decisions.

From the market structure side, it is evidenced that the main issue is the credit risk. This issue has existed in the banking industry in China for a long time, as indicated in Chapter 2. In relation to this is the underdeveloped information exposure system in the local market, which provides less choice for the MNB to mitigate credit risk. The impact of the market structure mentioned above is demonstrated in each aspect of strategic decisions illustrated further as follows.

- In the market seeking choice, the retail banking segment requires the MNB to have a large information base for the consumer. However, the market does not have such a system for the MNB to approach in order to secure the information. Even for wholesale banking, information about the corporates is difficult to obtain. All the cases show that to obtain quality information with international standards in the local market is a real challenge.
- In relation to concerns of risk, a closer control of the operation in the local market is needed. This explains why the option of the branch mode is adopted. This also explains why, if the retail banking segment is decided for seeking the local market, the MNB needs to use acquisition – making equity investment in the local market to share knowledge and experience, information of customers, and network with the local bank.
- In the specific operation of the branch, because of a lack of information about the local market and a lack of channels to obtain this information, the MNBs have to rely on the branch operation selecting and using information of their existing customers. In the meantime, authority allocated to the local managers is given in a cautious way. Expatriates' control is important in order to integrate information on all aspects between the parent bank and the local branch.
- Naturally, for the credit risk, due to lack of transparency of information in the local market, all the MNBs have to adopt a similar approach, i.e., rely on valid information from the parent bank and adopt the “following the client” approach, while the “searching for the client” approach is highly constrained by the difficulty

of gaining information on the local market and the ability to transfer information into banking policies.

From the regulatory structure side, the findings suggest the main issues are the restrictions in terms of business scope, market access and operation, which have been indicated in the industry level of observation in Chapter 3. The impact of the regulatory structure mentioned above is demonstrated in each aspect of strategic decisions and these are illustrated further as follows.

- In the market seeking, the retail banking business has been restricted to the MNBs for a long time. For the wholesale banking, local corporates have been limited to the foreign invested enterprises (FIE). Those regulations have been relaxed only in recent years. All the cases show that in fact they mainly gain niche corporate clients in the local market.
- When the clients are limited to the foreign invested enterprises (FIE), as indicated in Chapter 2, the MNB only needs to adopt the branch mode to satisfy the needs of the home-based investors in the local market. This explains why the branch has been the main entry mode. Further restriction on the licence requirements in terms of registered capital, preparation time through the establishment of representative offices and geographical restrictions on the branch, all suggest why MNBs have only a limited presence.
- Specifically in the operation of the local branch, the findings suggest regulation is the main concern for management control. Problems common to all the MNBs include unclear rules, inefficient channels of communication, instability of the rules, duplication of reporting and inconsistency of rules, as well as discrepancies of regulations across different locations. The speed with which regulations change creates a gap of understanding of the regulations between the parent bank and the local branch. As a result, a more close and strict control is needed as this will inevitably affect the responsiveness of the local branch.

- Furthermore in relation to the operation of the local branch, it has to be clear about not only the explicit rules and regulations, but also the rules with regard to the detailed practice. The change of specific rules directly influences the scale or the performance of the MNBs within their limited business scope. This confirms the argument made by Leung and Chan (2006) that the MNBs have to face both explicit and implicit entry barriers.

The impact of the regulatory structure is supported by mixed findings across the cases. This means the degree of regulatory impact is found to be different across the MNBs and is reflected in two aspects of findings.

First, regarding specific rules, the MNBs have different ways of interpreting whether they have a positive, negative or neutral effect on the competitiveness of the MNBs in the local market. Two examples are used to evidence this finding. One is the response to the interest rates control. The findings suggest not all the cases believe interest rates control is always negative. The findings suggest that those that are more aggressive in the competition believe interest rate control has a negative effect on their advantages. Those that are relatively conservative in the competition believe that interest control has its positive side and that they benefit from the effect because it reduces pressure of competition.

Second, the response of the MNBs to stability of the regulation is different. The changing rules concerning foreign debt quota, which has been strongly argued against in the industry during the period of this research, was used to examine the effect. The findings suggest again that those that are more aggressive in the local market tend not to comment on the effect of the changing rules on the foreign debt quota. Those that are less aggressive believe they are affected by such changes.

The above two evidences indicate a mixed result regarding the impact of regulation, finding that the degree of regulatory impact is different according to the competitiveness of the MNB. The findings suggest that the more the competitive the MNB, the more they are actually constrained by the regulation. In addition, the impact has to be judged

by different abilities of the MNB to mitigate the legal risks.

The above result is further confirmed by two general questions raised with all the cases. One question is with regard to their general attitude to the regulatory constraint and the other is how a solution can be found to mitigate legal risks. Again, the findings confirm that the aggressive MNBs are much more regulation-orientated. In other words, they are sensitive to the change of regulation in all its aspects. Other groups of MNBs feel sensitive to changes of certain aspects or are only trying to adapt to the changes of the regulation.

The other question is with regard to the solution of mitigating legal risk. The findings suggest that the aggressive MNBs believe they cannot only comply with the rules and regulations but also influence the regulators in terms of the formation of the rules and the implementation of the rules, while the conservative MNBs focus on only complying with the regulations.

As regards the joint effect of the market structure and regulatory structure, the findings suggest an overall underdeveloped market structure have presented the MNBs with a huge potential market but with risks of penetration, in particular the risk caused by the underdeveloped regulatory system. Under the regulation constraints, all the MNBs have been further constrained so that they are not able to deploy their resources and their ability to mitigate the risk is constrained by the availability and quality of information. However, the degree of the impact of this regulation is different across individual MNBs depending on their determination to explore the opportunities, based on their resources and capability and also depending on their ability to influence the regulator. As a result, *Proposition 2* is confirmed in this study.

9.2.4 Findings in relation to Entry Decision Patterns

Before conducting this research, it was hard to predict the decision patterns or types of the MNBs. To define the strategic group by their strategic entry decisions is not suggested in the literature because of differing definitions of the entry strategy of this research. As a result of the analysis presented in Chapters 7 and 8, four decision patterns

are identified.

The MNBs under each decision pattern are grouped. These grouped banks are not claimed to be strategic groups in this thesis because they are grouped only based the strategic entry decisions of the MNBs. The grouping processes discussed in Chapter 8 have not considered the specific characteristics of the parent bank in each case. For example, the MNBs of different sizes are compared together. Nonetheless, the decision pattern can be regarded as one of the indicators to suggest the strategic groups. This study has moved one step forward into identifying the strategic groups which is argued as important for the purpose of relating strategic behaviour to certain characteristics of firms (Dunning, 2001).

It is interesting to find that the grouped MNBs identified through this study have shown similar characteristics of the four strategic types argued by Miles *et al.* (1978) in the model of the adaptation cycle. The adaptation cycle is formed with consideration of three main variables: *entrepreneurial problem*; *product*; and, *administrative problem*. Accordingly, there are four strategic types, namely, *reactors*, *defenders*, *analysers* and *prospectors*. The four strategic groups identified in this thesis have been found to have similar characteristics to the four strategic types. This finding is similar to what Luo and Park (2001) have found about the MNE in China. The findings from each MNB Group are reflected below.

Group (I) has similar characteristics to the *reactors*. The MNBs in this group adjust to the environment in an unstable way. There can be three reasons for the unstable decisions, i.e., not clearly articulated strategy, not fully shaped organisational structure, and inertia of change. These characteristics are typically found in Case 2 but not in Case 6.

Group (II) has similar characteristic to the *defenders*. The MNBs in this group try to create a stable domain in a narrow segment of the total potential market. They tend to maintain a small niche which is difficult for competitors, and ignore development and trends outside their domain. They also tend to choose strict control of administration to

ensure efficiency. Decisions made by Cases 4 and 5 in this group have shown the above characteristics.

Group (III) has similar characteristic to the *analysers*. Related characteristics are found in the MNBs of this group in that they try to minimise risk while maximising the opportunity for profit. They try to move to new products or new markets but only after their viability has been demonstrated. The organisational structure tends to be a matrix, emphasising both stable and dynamic development. Decisions made by Cases 3 and 7 have typically shown these characteristics.

Group (IV) has similar characteristics to the *prospectors*. They are characterised by a broad and continuous state of development indicating that market development is equal to or more important than profitability. The product is contingent upon both the organisation's current and future product mix. The administration focuses on how to manage a multiple unit of operation. Decisions made by Cases 8 and 10 have typically demonstrated these characteristics.

The decision groups identified in this thesis also find similar results argued in the context of the MNE. For example, Ma (1999) suggests that there are four strategic responses of the MNE in general; these are: *doing nothing*, *defending*, *counterattack* and *total war*. These strategic responses have been found to be similar characteristics to those of Groups (I), (II), (III) and (IV) respectively.

The decisions made by the four decision groups also confirm the findings of Luo *et al.* (2002) regarding the mechanisms that the MNE use in China in mitigating liabilities of foreignness (LOF). The two mechanisms are the *defensive strategy* and the *offensive strategy*. The defensive strategy addresses contract protection, parental control and service, and output standardisation which are similar characteristics represented by Group (I). The offensive strategy addresses local networking, resource commitment, legitimacy improvement and input localisation which are similar characteristics represented by Group (IV).

In summary, the findings of the decision pattern confirm the general argument regarding the strategy type in the argument of the *adaptation cycle* by Miles *et al.* (1978). The findings also support the argument of strategic types in the context of MNE (e.g., Ma, 1999). They also confirm the decisions mechanism generally adopted by the MNE in China (e.g., Luo *et al.*, 2002). The similarity of results in these studies supports the argument by Khoury and Pal (2000) that a theoretical framework for understanding FDI in the manufacturing sector is relevant to the FDI in the financial sector.

9.3 Chapter Conclusions

This chapter compares the research findings with the existing literature in four dimensions; these are: i) the concept of entry strategy built up in this research; ii) the findings in relation to strategic entry decisions; iii) the findings in relation to the research propositions; and iv) the decision patterns identified through this research.

The concept of entry strategy means different dimensions of strategic entry decisions. This multiple dimension view of entry strategy is confirmed by the research findings that it provides a more comprehensive way of comparing entry strategy across the MNBs and also emphasises the relationships between different strategic entry decisions.

The concept of entry strategy is built into this research based on certain assumptions regarding the meaning of the strategy process. Entry strategy is assumed to be formed to sustain competitive advantage through learning emergent factors, targeting multiple outcomes and focusing on strategy implementation.

Regarding the entry motive decision, the findings suggest market seeking and knowledge seeking motives are the dominant decisions. This finding supports the argument that knowledge and commitment are reinforcing. In contrast, the efficiency seeking and strategic asset seeking are not strongly evidenced because of the regulatory factors.

Regarding the entry mode decision, the findings suggest branch entry mode is the dominant entry mode in the past and for the future. An alternative entry mode –

acquisition – is well recognised as an important approach to obtaining strategic assets quickly. Evidence confirms branch entry mode provides a higher level of control, fewer risks but also fewer opportunities for expansion. Acquisition provides a lower level of control, higher risks but still uncertain opportunities of expansion.

Regarding the management control decision, the findings confirm the mechanisms of integration (I) and responsiveness (R) framework in which the MNBs have to balance both acts. Three control measures are evidenced for management control under the IR framework. The findings confirm the argument that the branch mode offers the mode of operation with the highest control by the parent bank with evidence that the MNB focuses more on integration than responsiveness.

Regarding the marketing orientation decision, the findings confirm the argument that the most important concern is to maintain and identify the customer in the local market. The “following the client” and the “searching for the client” approach are the two main strategic approaches adopted similarly by the MNB.

The findings support *Proposition 1* that the MNBs have adopted different entry strategies. The differences of the strategic entry decisions are caused mainly by the joint effects of the bank-specific resource and the global strategy. Key bank-specific resources including bank size, global and local knowledge and experience, network in terms of scale and scope, human resources and closeness of culture are evidenced in this study.

The findings support *Proposition 2* that regulation has caused the strategic entry decisions across different MNBs to converge. However, the degree of the regulatory impact on individual MNBs is different. By matching the bank groups identified already, the evidence shows that the aggressive bank group (IV) is more sensitive to regulatory changes and more capable of influencing regulators, while the conservative bank group (I) focuses on complying with regulations and is less capable of influencing regulators in the local market.

The MNBs that tend to make similar choices are identified and they follow the same strategy patterns. Four decisions patterns as identified from this research provide an initial attempt to identify the strategic groups of the MNBs in China. The findings are in line with the existing literature regarding a firm's adaptation cycle, the strategic positions of the MNE in general, and the mechanisms followed by the MNE to overcome foreign liabilities in China.

To conclude the discussion, we agree with the comment of Leung and Chan (2006:233) that "the changing competitive environment has prompted foreign banks with different resource profiles to adopt various strategies to compete in the Chinese banking market." This comment represents the main theme of strategic behaviour that this thesis tries to demonstrate through both explaining and exploring methods based on the eclectic view.

Chapter 10 Research Conclusions

10.1 Introduction

This chapter presents the overall conclusions of the research. The chapter summarises the research findings in Section 10.2, contributions in Section 10.3, limitations in Section 10.4 and suggests directions for future research in Section 10.5.

10.2 Research Findings

The main outcome of this research is to show the impact of regulations on the formation of entry strategy of the multinational banks in the banking market in China. The research is based on industrial level analysis of the market and regulatory structure and case studies of strategic entry decisions of ten multinational banks invested in China.

MNBs in the banking market in China are presented with both potential investment opportunities and high risks from the underdeveloped banking market. Regulations imposed coercive restrictions and have made potentially more distinct entry strategies converge. Despite the fact of converging strategic entry decisions, this research has found that the entry strategies of the MNBs in China are different and the differences are attributed to the distinct bank-specific resources and the global strategies. The findings from this research are concluded as follows based on the three research questions.

Question 1: “Are the entry strategies of the multinational banks in China different?”

1. Regarding the entry motive decision, the MNBs covered in this study have upheld the market seeking and knowledge seeking motives and there is less evidence to suggest efficiency seeking or strategic asset seeking are the initial entry motives of the MNBs investing in the China market.

Within the market seeking motive decision, the MNBs have made different decisions regarding whether both the local wholesale banking and local retail banking should be targeted or not.

2. Regarding the entry mode decision, the MNBs covered in this study have adopted the branch mode as the main form of entry. It is difficult for them to conduct retail banking through the organic growth of local branch networks.

Within branch entry mode decision, the MNBs have made different decisions regarding the scale, scope and speed with which to expand their local branch network because of differences in entry motives. Within the acquisition decision, the MNBs have different speeds of becoming involved in the actual investment. The decisions regarding these two entry mode choices are related.

3. Regarding the management control decision, the MNBs covered in this study have to balance the acts of achieving integration with the parent bank and responsiveness to the local market. Structural, authority and personal controls are all commonly adopted as the mechanisms of control.

Within the structural control mechanism, MNBs have made different decisions regarding whether a local head office should be established or not and in relation to this whether authority in credit lending should be more decentralised to local branch managers.

4. Regarding the marketing orientation decisions, all the MNBs have adopted the “following the client” approach.

In the “search for the client” approach, the MNBs have shown different levels of confidence to tap into the local market. However, in searching for new corporate clients in reality they have targeted similar corporate clients, from similar industries and lending facilities for similar purposes indicating the intense competition within the MNBs.

5. According to the concept of entry strategy in this research, the argument that the MNBs in China have different entry strategies is supported. Four decisions patterns are identified represented by Group (I) the conservative investors, Group (II) the less conservative investors, Group (III) the less aggressive investors, and Group (IV) the aggressive investors. Each decision group has shown decision patterns or the configuration of strategic entry decisions of different dimensions.

Question 2: “If the entry strategies of the multinational banks in China are different, why?”

6. The differences in the entry strategies of the MNBs are proved to be attributable to the differences in the ownership-specific advantages, including bank specific resources and global strategies.
7. The resource profile of the MNBs has shown pattern matching in the decision patterns of the MNBs suggesting the determining impact of bank-specific resources on the differences in entry strategies.
8. The global strategy in terms of the geographical and business segmentation policies has shown patterns matching the decision pattern of the MNBs, suggesting the determining impact of global strategy on the differences of the entry strategy.
9. Differences in the ownership-specific advantages have shown more direct impact on the strategic entry motive decision. In this study, it determines specific market seeking decisions.

Question 3: “To what extent have regulations impacted on the entry strategies of the multinational banks in China?”

10. The formation of the entry strategies is impacted on by factors from both the market and regulatory structures.
11. Regardless of the regulatory impact, the MNBs are presented with high risks and less information to mitigate risks in the underdeveloped banking market.
12. Also, regardless of the market impact, the MNBs are presented with strict and immense regulations in market access, business scope and business practice, and less influence on the regulators.
13. A joint effect of both the market and regulations results in converged strategic entry decisions, although the degree of regulatory impact on individual banks is different depending on different entry motives, and resources and abilities to adapt to the changing conditions.
14. The location-specific advantages directly impact on the how the MNBs can sustain potentially distinct ownership-specific advantages in the local market.

10.3 Contribution

Applying the eclectic paradigm (Dunning, 1993) to this study, the existing OLI framework (ownership-location-internalisation) is found to have insufficient development in four areas, namely, the literature gaps as discussed in Chapter 5; these gaps are concerned with:

- How to apply multiple perspectives in the OLI framework
- How to study strategy based on the OLI framework
- How to study firms' behaviour based on the OLI framework
- How to study the service MNE based on the OLI framework

To fill out the literature gap, this study presents findings that make a contribution to existing theoretical, empirical and practice literature in several ways. Each dimension is discussed as follows.

10.3.1 Contribution to Theory

For the first literature gap discussed above, the results in this thesis have implications for the resource-based view (Barney, 1991), institutional theory (Scott, 1995) and internalisation theory (Rugman, 1980, 1986).

i) Resourced-based View

One of the main theoretical arguments relies on the resource-based view (RBV) to explain the formation of the strategic entry decisions. The RBV of firms emphasises the internal factors as the determinants of strategic choices.

In this thesis, the findings support the above argument of RBV threefold: i) the bank-specific resource is a prerequisite for the generation of formulated entry strategy; ii) differences in the BSR cause different strategic entry decisions; and iii) the BSR needs to be both exploited and explored for competitive advantage.

First, the findings support the argument that bank-specific resources generate the formulated entry strategy. Specific to the MNBs, the findings confirm the argument that the key resources of the MNBs are mainly intangible (Cho, 1985). These resources include knowledge and experience, network, human resources and culture. The findings of key resources are in line with what is found by Leung and Young (2002) regarding the key resources of the MNBs in China.

Second, the findings suggest that MNBs in the same environment are still likely to use different entry strategies because of idiosyncratic resources and capabilities. Luo (2002:193) argues that evidence to support strategy difference from a resource-based view is missing. This thesis confirms that the differences in bank-specific resources and entry strategies are related.

In addition, the findings support that global decisions regarding the allocation of assets in geographical segmentation and in business segmentation explain why the market in China is addressed and what could be the appropriate product/service to be offered in that market. The findings show that the entry strategy for a single host market is consistent with the global strategy of the MNB.

Third, the findings show that to develop the local resource is perhaps more important and more challenging for all the MNBs. This is evidenced by the fact that MNBs with very different asset sizes may have shown similar strategic behaviour. In bank group (IV), bank size may not directly generate the competitive advantage in the local market. The closeness in culture and geographical location are more influential to the advantages than bank size at certain stages of competition. In other words, the local market related OSA is more important. This finding supports the argument of Dunning (1988) that ownership-specific advantages may change depending on “where” of the production.

ii) Institutional Theory

Another main theoretical argument stems from the institutional theory, which focuses on the impact of regulations for the explanation of the formation of strategic entry decisions. Institutional theory is argued, in the location-specific advantages (LSAs) of the eclectic paradigm, as the external factors to determine the formation of entry strategy.

The findings have confirmed the two general dimensions to view the LSAs. Leung, Rigby and Young (2003) use political risk environment and business opportunities to represent LSAs of the MNBs in the market in China. Fu (1998) also use two dimensions, market potential and investment risk, to represent LSAs. In this study similar dimensions are adopted and are proved to be relevant. The investment risks are represented by the risk from the changing regulation and credit risk in the market. The business opportunities are represented by opportunities from the changing market structure and the more favourable regulatory conditions towards the MNB.

The findings to support the institutional argument are demonstrated threefold: i) there are mixed effects of the institutional impact on the strategic entry decisions for individual MNB; ii) the mimetic behaviour is only proved indirectly; and iii) the changing institutional conditions suggest some unknown impact to be explored further.

First, the impact of institutional conditions, specifically from regulations, is found to have mixed results in relation to competitive advantages. The findings suggest that the aggressive MNBs, usually those with more competitive OSAs, are more likely to be negatively affected by the regulatory impact. In contrast the conservative MNBs, usually those with less competitive OSAs, are less likely to be negatively affected by the regulatory impact in this specific banking market.

Second, literature suggests because of the potential cost of mitigating the risks from the changing regulatory conditions, the MNBs are assumed to follow each other in making their entry decisions. However, through this study, the findings have not found strong support for mimetic decisions from individual banks, except only in one or two cases where they have mentioned that they made decisions by following others. An example is in Case 6 where the manager mentioned that they try to follow others because leading the market is expensive. In Case 1 the manager mentioned their products are quickly emulated by others. But mimetic behaviour is evidently observed at the industrial level, such as in the entry motive decision, where all the MNBs admit that knowledge seeking is important and they all tend to adopt the branch mode of operation.

Third, the changing regulation makes the impact on the future unknown. The findings suggest that regulations impact on the strategic decisions in many different dimensions. Because of regulatory constraints, the results suggest potential disadvantages rather than advantages for the MNBs in the local market. However, viewed from the industry level, without deregulation, the MNBs would not have had a chance to enter into the market in China to serve the clients. The macro-level data in Chapters 2 and 3 suggest that in fact the involvement of the MNBs is deepening. The interplay of potential advantages from changing market structure and the changing regulatory structure leaves scope for a further examination of their joint effects.

iii) Internalisation Theory

The third theoretical pillar in this thesis is the internalisation theory. The eclectic paradigm argues that competitive advantages also stem from the internalisation-specific advantages (ISAs). The argument on the internalisation process suggests that without the establishment of the MNBs the ownership-specific advantages and the location-specific advantages cannot be realised.

In this thesis, the internalisation theory is argued to support findings threefold: i) it suggests how the competitive advantages can be realised; ii) it suggests why and how the entry mode decisions have been made; and iii) internalisation relies on both the exploitation of the existing resource and also the exploration of the new resource in order to sustain the competitive advantage.

First, the literature suggests several ways to realise the ISAs (Cho, 1985). These include the cost of funding, efficient customer contacts, price transferring, improved network for information gathering and reduced earning variability. Some of these dimensions are supported by the findings and some are not.

- The cost of funding is found not to be the source of competitive advantage in the context of this research. Because of restrictions on taking local deposits by regulation, the MNBs have to rely on the inter-banking market for their funding in local currency, which increases the cost of funding.
- Efficient customer contacts are proved to be a source of competitive advantage. In the branch entry mode, the local operation can rely on all types of resource from the parent bank including the existing customer relationship. The expatriate managers also help make the communication with existing customers more efficient and effective in the local market.
- The findings do not support the price transferring argument. This is because the information regarding the price transferring is sensitive to being exposed. Also,

since performance is not the focus of this study, the questions have not tried to explore this aspect in any depth.

- The findings support the argument on the improved network. With the extended banking network to the local market, the service to the existing clients is continued. However, the finding also suggests that even with the presence in the local market, because of the difficulties in searching for valuable information, the efficiency of using the network is difficult to be realised.

Second, literature suggests internalisation implies the entry mode decisions. The findings support the argument by Fu (1998) that the entry mode decision is proved from three dimensions: contractual risk, economies of internal operation, and contribution of local partner. Each is supported with findings in this thesis as discussed below.

- The findings suggest that credit risks influence the decision risk control, hence the appropriate organisational structure to support the requirement of risk control. In this study, the branch mode of entry is chosen for the MNBs to deal with high credit risks with less information through a higher level of control by the parent bank.
- The findings also suggest that cost saving is a common concern in the decision of entry mode choice. The findings confirm that economies of internal operation are generated by establishing branches through efficiencies in marketing and account management, and the availability of fund transfers and networks.
- In addition, the findings suggest that besides the branch entry mode, acquisition is viewed commonly as an option. The MNBs can obtain local knowledge through setting up a strategic partnership to reduce any uncertainties by pooling resources in the local market.

Third, the findings prove that internally existing OSAs may not generate competitive advantage in an underdeveloped market and highly regulated conditions as occurred in this study. The MNBs need to explore resources that are more relevant to the local

market. The exploration process relies on strategic entry decisions with regard to management control and marketing orientations. Both decisions relate more to the implementation of entry strategy supporting the argument of Peng (2000) of the bottom-up approach in forming strategies in the transition economy in China.

10.3.2 Contribution to Research

This study contributed to our empirical knowledge in several ways.

First, it has attempted to use the OLI framework to study the strategy of individual firms. There are only a few empirical studies based on the same research context that have adopted the OLI framework to study the entry strategy of the MNBs in China. Most of the studies have tended to focus on one dimension of the entry strategy such as the entry mode decision by Fu (1998) and the entry timing decisions by Leung, Rigby and Young (2003). The entry strategy incorporating different dimensions has been hardly explored. In this regard, this thesis has presented the primary attempt to examine the overall strategic entry decisions using the developed conceptual framework based on the OLI paradigm.

Second, it has attempted to use the OLI framework to study the strategic behaviours of the individual MNB. Different from previous studies on the strategic decisions, this study addresses the behaviour of local branches of the MNB. By incorporating the decisions related to the operational side, in particular, the behaviour under the management control decisions and the marketing orientation decisions are explored. As result, strategic entry decisions and implementations are found to be related. The study confirms that in an emerging market such as China, the operation of the MNB in the local market is influential for the decisions made by the parent bank.

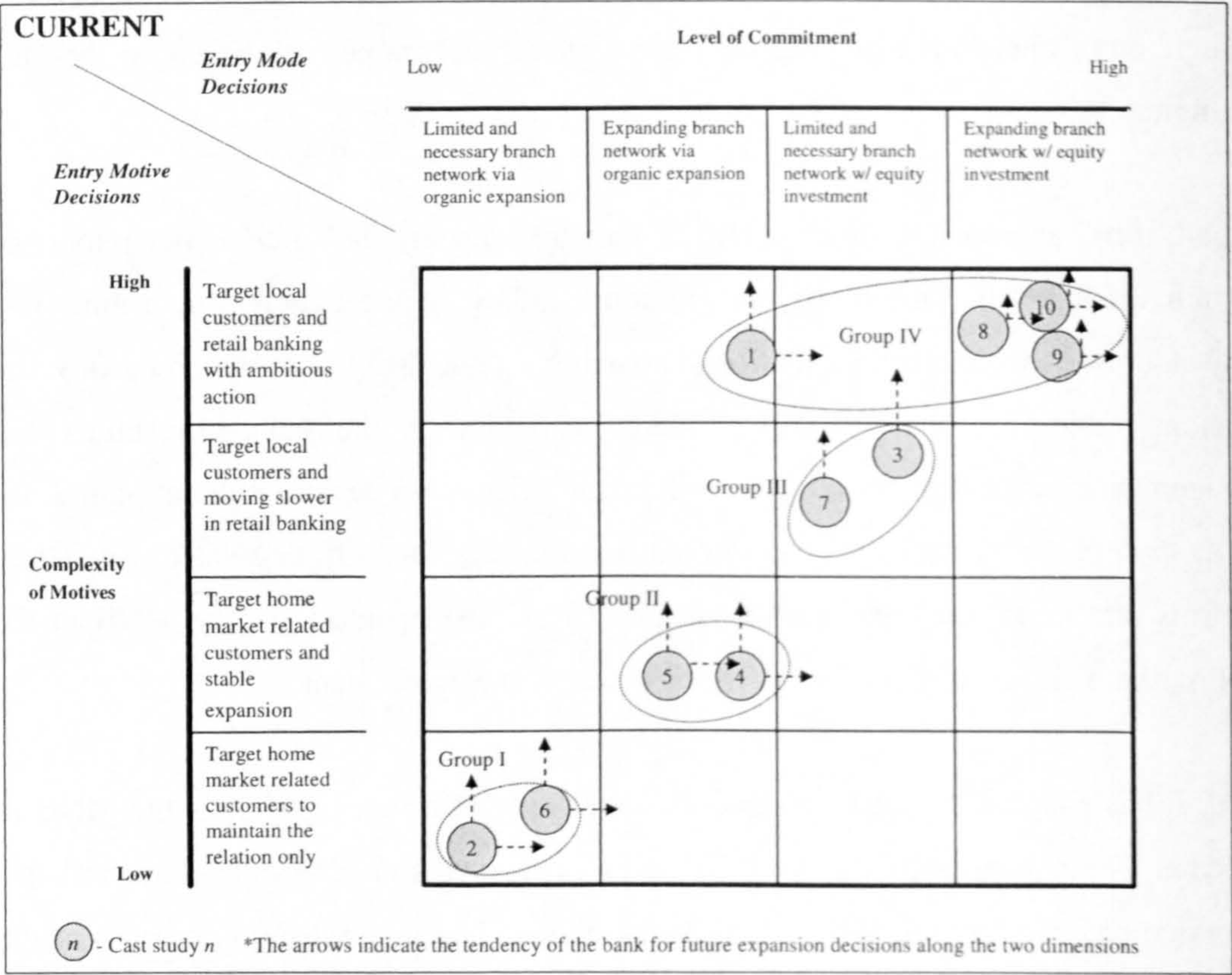
Third, it has adapted the OLI framework to the study of a service MNE – the MNB in this case. The conceptual framework has been developed to address the characteristics of service provided by the MNB in the local market. The internalisation process of the ownership-specific advantages of the MNB is found to be subject to intangible resources of the individual MNB. Direct contact with the bank managers in the local

branch provides first hand information to explain why certain key bank-specific resources are important, what type of resources are crucial, and how learning and training are conducted to upgrade the intangible resource. This study implies that we need to understand the intangible bank-specific resources through exploring the nature of those resources first, before measuring the degree of their determination on the entry decisions.

10.3.3 Contribution to Practice

To the MNBs in the local market, this study provides insights as to how the MNBs in China may integrate decisions and behaviour, and identify their strategic positions. Figure 10.1 revisits the four bank groups identified from the analysis presented in Section 8.2.1.

Figure 10.1 Grouping Cases by Strategic Entry Motive and Mode Constructs



Of the two dimensions in the matrix, one focuses on the entry mode decisions and the other on the entry motive decisions which are derived based on the strategic behaviour including attitude and action when the MNB commits to the local market. This construct provides an initial reference for the MNBs to view other competitors and see potential reasons for the change of their strategic positions.

The findings also encourage managers to think more broadly of how competitive advantages can be generated in the local market. Given the business environment presents uncertainties and risks that are difficult to mitigate, exploitation of existing advantages from the parent banks provides solutions from one dimension. However, the findings also suggest that bank managers need to focus on the ability to explore more local-specific resources and abilities to sustain their competitive advantage. Learning to acquire local knowledge and to convert information into appropriate decisions relies on the abilities of skilful people.

The finding also indicates to the regulators the benefits of having an overall view of the decision patterns of the MNBs. Because of differences in the ownership-specific advantages, the responses of MNBs to the same regulations can be different. With the knowledge of how MNBs may respond, the impact of regulation on the competition can be assessed with certain predictability. The study implies that in order to assess the decisions of the MNB, both the bank-specific resource and the global strategy should be understood. In the meanwhile, the gap of having the ownership-specific advantages and the ability of exploiting those advantages in the local market are evidenced. This gap suggests an examination on the actual practice of the MNB in the local market should be considered.

10.4 Research Limitations

10.4.1 Conceptual

Models developed previously based on the OLI framework have been examined in this study. This research has constructed a conceptual framework to both explain and explore the formation of the entry strategy of the MNBs in China. The conceptual

framework is developed to draw an alignment among the conceptual framework, research purposes and research questions as well as the research context. Because it attempts to integrate different elements, the conceptual framework may have been limited in the following dimensions.

First, the conceptual framework focuses on the entry strategy to a single host market. It is an appropriate research setting for this study because the study is based in the context of the MNBs invested in China. But the framework may need to be justified when research has to highlight the market selection decisions.

Second, the conceptual framework focuses on four strategic entry decisions relevant to this research context. The four decisions address the entry motive, entry mode, management control and marketing orientations which are relevant to this study. Other decisions such as entry timing decisions or the exit decision have not been addressed and it may require a further examination of the framework if those decisions are focused on.

Third, having recognised the weakness of existing models though, the researcher made no effort to measure the competitive advantages of the MNBs because the measurement is difficult to be defined. Future research may explore how to measure the competitive advantages of the MNBs to allow the feedback loop to be incorporated in the conceptual framework.

Fourth, the conceptual framework specifies attributes for all the strategic entry decisions, but leaves the internal factors less specified in terms of the attributes and external factors generally without specific attributes. This approach is taken to suit the exploration research purpose given the rare studies conducted before. But it can be argued that adding specific attributes to those factors may enhance both the effectiveness and efficiency of the exploration.

Fifth, the conceptual framework relies on three theoretical bases, i.e., the resource-based view, institutional theory and internalisation theory to support the argument of the three

areas of enabling factors for the competitive advantages of the MNBs in the local market. These theoretical bases are emphasised given the research perspective regarding the importance of bank-specific resources, the importance of regulatory impact and the importance of the internalisation process for the purpose of this study. Studies with other foci may adopt different perspectives within the OLI paradigm.

10.4.2 Number of Cases

The lack of generalisation has been one of the major criticisms faced by the case study method. Ten multinational banks were selected, as discussed in Sections 6.4.1 and 6.4.2. Compared with the total of over sixty MNBs with operations in the China market, as this research is conducted, the small number of cases may not qualify for statistical analysis or interpretation. However, the context-specific nature of this study is more suitable for analytical generalisation (Yin, 1994).

In addition, the result that different patterns of entry decision are identified has suggested the number of cases has met the research purpose. But if more cases could be approached, the generalisability of the study would be enhanced. Some active banks of different market origins have not been covered in this study given the capability of managing a huge amount of information and the constraints in accessing too many banks in a limited time.

10.4.3 Research Instrument

The research instrument is designed to include the protocol for the collection of secondary data and the interview questions for the collection of primary data. The research design may be limited in the following dimensions.

First, the study is based on the investigation of the operation of the MNBs in the local market. This focus fits the requirement of exploring the implementation side of entry strategy, but it limits the opportunity to understand the global strategy of the MNBs. It also limits any direct exploration of the relationship between global strategy and entry strategy.

Second, the study has suggested that entry strategy plays the role of sustaining competitive advantage in the local market. However, with no direct examination on the concept, in reality it may weaken the findings. The study has not found an appropriate approach to measure competitive advantages of the MNBs in the local market. The financial performance of the MNBs in the local market is not publicly available and price transferring issues make it more complicated to measure that performance in a way that is specific to China. However, the concept of entry strategy has been indirectly explored with a detailed examination of all the strategic entry decisions. The confidence, attitude and decision status are used to indicate the feedback from the decisions regarding the competitive advantages of the MNBs in the local market.

Third, the study has mainly relied on second-hand data to explore the ownership specific advantages. Both the bank-specific resource and global strategy are examined based on the attributes suggested from the literature with limited data available for the purpose of comparative analysis. Additional internal information may help to bring a more in-depth and broader assessment in this dimension. For example, the executive managers based in the parent bank can be important informants because it is in the parent bank that the entry strategy would be formulated. Also, the parent bank could have provided information on the critical resources of the MNBs and the role of resource/knowledge in formulating the entry strategy. However, those managers were not approached because the researcher is constrained by the time and resources that were available to be invested in this project.

Fourth, the study only focuses on the behaviour of each MNB in the banking sector in China. In fact some MNBs also invest in the non-banking financial sectors or non-financial sectors in China. It may bring a more comprehensive picture of the investment activities of the MNB if the instrument were to be given more consideration in this respect. However, this may cause irrelevant information to be collected and may lose the focus of analysis.

Fifth, the study only focuses on the corporate banking activities of the MNB. Indeed it provides the core area that most the MNB has been focusing on over years in the local

market in China. But research instrument may bring broader view when it can cover more direct investigation on the retail banking, service banking as well as the product profile development in China.

Sixth, the study has focused on the branch entry mode by which most of the foreign banking activities is conducted. However, it would be more comprehensive to investigate all entry modes each MNB has chosen in order to fully explain the entry mode decisions. This idea would have been difficult to implement because entry mode decisions are found sensitive information to be exposed. Also because the adoption of a new entry mode, for example acquisition, is only permitted in recent years, available information can be limited for comparative studies.

10.4.4 Analysis Tool

As there has been very little research conducted previously regarding the formation of entry strategy of the MNB in the same context, adopting such a comprehensive approach as this study has, there are limited tools available from the literature to help with the analysis. Using NVivo software was found to be efficient in organising information and flexibility for the exploratory analysis. The process, however, does not generate more analytical implications itself.

Interpreting strategic decisions from the interview data requires careful judgment and enough presentation of the evidence; otherwise the findings may be biased towards subjectivities. However, organising huge and multifaceted information at both industry level and firm level, at both local branch level and parent bank level, has proved to be challenging. The technique for integrating all the information and deriving meaning from the integrated data has been tried in this research and remained a necessary level of rigour in conducting this research.

10.5 Future Research

Several opportunities for future research have been identified. Some of these opportunities derive from the limitations of this study. It is suggested that future

research be continued in three directions:

- i) This research was essentially exploratory. Following the retroduction logic of reasoning in the research process, the researcher has done two parts of work which are interplaying together. One is to deduce from the existing literature, which may be informed by the data collected. The other is to induct meaning from the existing data which is collected under the guidance of existing theories. In reality, the adoption of retroduction may require a well-arranged planning of data collection for the induction and deduction reasoning process. Future research following the same research strategy could make many improvements through controlling the research process as described above.
- ii) Because of the exploratory nature of this research, it has confirmed and identified attributes of the elements designed in the conceptual framework. The three main factors in the OLI paradigm require further exploration of the attributes and the meaning of those attributes.
 - The ownership-specific factors have been defined to have two main factors including the bank-specific resource (BSR) and the global strategy. In the BSR, the complex and less clear boundaries of the resources require a clearer classification. For example, the implication of the size of the bank is worthy of further exploration. The relationships between the globally-and locally-related resources can be further explored to understand the impact changing BSR in the parent bank on the entry strategy to a specific market.
 - The location-specific factors have been confirmed to consist of two main dimensions, one with regard to business opportunities, and the other to the risks (e.g., Fu, 1998; Leung, Rigby and Young, 2003). Future research is suggested to specify further the meaning and relation of both factors in foreign banking in China. The study of location-specific factors was focused on the host market. Future research should also consider the comparative advantages with the consideration of the home market conditions and the regulatory structure of the home market of the MNB. The

culture distance, institutional distance and geographical distance (e.g., Luo and Park, 2001) are not the focus of this study but the impact of these factors has been directly and indirectly shown in this research. Future research should address how to apply these factors into the OLI framework.

- The internalisation-specific factors have not been given attributes unless they relate to specific activities. The concept of internalisation, it is suggested in this study, should be examined to understand how OSAs have been exploited with the LSAs in order to actually achieve ISAs. For example, the implication of investment on the human resources in the local bank managers can be further studied. Similar issues such as how the global resources can be transferred into the local-specific resources require more research effort to understand.
- iii) The case study research method is applied in this research. The findings are fruitful but in the meantime it is demanding for the development of an analysis tool. Studies of internationalisation process have been encouraged to conduct more qualitative process oriented research (Piekkari and Welch, 2004). For future research, we suggest perhaps combining case studies with a survey. The case studies are suggested to cover more historical data to better understand the trajectory of the formation entry decision, while a survey may bring the benefit of a larger sample of data that case studies may find difficult to provide.
- iv) This study supplements to the previous studies which have tended to neglect the case of the MNBs in China. Similar research questions can be raised to other research contexts that haven't been studied. Future research may also apply the research method as adopted by this study to the MNBs in other different banking contexts.
- v) This study has addressed the strategic behaviour of the foreign banks in China. However, the local banks were only partly studied at the industry level; their strategic behaviour has not been fully explored. An assessment of the implication of

foreign banks for the long term development and the future of the Chinese banking industry should be one of future research areas.

In conclusion, this research has provided an initial attempt to focus on the strategic behaviour of the MNBs in the emerging but highly regulated banking market in China. The conceptual framework, as developed in this study, has helped to explain and explore the mechanism governing the formation of entry strategy. As an initial and rarely conducted study in a similar field, this study has met the research purposes. Further research is suggested to refine the framework or to give greater focus on certain parts of it in order to make it more capable of capturing and representing the dynamics of the entry strategy of the MNBs in similar contexts.

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Appendices

Appendix A A Summary of Empirical Studies

5-1

Authors	Year	Main Focus	Theoretical Base	Main Method	Home Market	Host Market
Thoman & Kerr	1974	entry & survival	(practitioner's view)	descriptive	others	US
Rudy	1975	management	(practitioner's view)	descriptive	global banking	
Terrell & Leimone	1975	activities	(report)	descriptive	others	US
Fieleke	1977	growth of the MNB	(not focused)	modelling	US	others
Terrell & Key	1977	growth of the MNB	(not focused)	survey	others	US
Khoury	1979	multinationalization	economics theory	modelling	others	US
Terrell	1979	entry strategy-motive	economics theory	modelling	US/Japan	Japan/US
Rabino	1981	growth of the MNB	(not focused)	descriptive	others	US
Goldberg & Saunders	1981a	entry strategy-mode	(not focused)	modelling	others	US
Goldberg & Saunders	1981b	growth of the MNB	(not focused)	modelling	others	US
Ball & Tschoegl	1982	entry strategy-mode	economics theory	modelling	others	US
Kindleberger	1983	entry strategy-motive	(not focused)	descriptive	others	others
Tschoegl	1983	growth of the MNB	economics and regulation	modelling	global banking	

Authors	Year	Main Focus	Theoretical Base	Main Method	Home Market	Host Market
Cho	1985	growth of the MNB	eclectic paradigm	modelling	US	Singapore & Korea
Nigh, <i>et al.</i>	1986	location	eclectic related	modelling	US	others
Terrell	1986	impact on domestic banking	(not focused)	descriptive	others	US
Engwall & Wallenstal	1988	entry strategy-motive	(not focused)	descriptive	others	Sweden
Sabi	1988	growth of the MNB	economics theory	modelling	others	LDCs
Hultman & McGee	1989	growth of the MNB	economics and regulation	modelling	others	US
Benston	1990	growth of the MNB	(not focused)	descriptive	US/others	others/US
Goldberg & Johnson	1990	growth of the MNB	(not focused)	modelling	US	others
Terrell, <i>et al.</i>	1990	growth of the MNB	(not focused)	modelling	Japan	US/UK
Damanpour	1991	impact on domestic banking	(report)	descriptive	others	US
Grosse & Goldberg	1991	growth of the MNB	(not focused)	modelling	others	US
Ursacki & Vertinsky	1992	entry strategy-timing	eclectic related	modelling	others	Japan & Korea
Terrell	1993	activities	(report)	descriptive	others	US
Barros	1995	entry strategy-mode	(empirical literature)	modelling	others	Portugal
Huh, <i>et al.</i>	1995	performance	economics theory	modelling	others	Korea

Authors	Year	Main Focus	Theoretical Base	Main Method	Home Market	Host Market
Hultman & McGee	1995	activities	(not focused)	descriptive	others	US
Brealey & Kaplanis	1996	location	economics theory	modelling	others	others
DeYoung & Nolle	1996	performance	economics theory	modelling	others	US
Denizer	1997	impact on domestic banking	economics theory	modelling	others	Turkey
Leung	1997	growth of the MNB	eclectic paradigm	modelling	others	China
Chang, et al.	1998	performance	economics theory	modelling	others	US
Fu	1998	entry strategy-mode	eclectic paradigm	descriptive	others	China
Miller & Parkhe	1998	growth of the MNB	eclectic related	modelling	US	world
Parkhe & Miller	1998	entry strategy-mode	theory of the MNB	modelling	US	others
Seth, et al.	1998	entry strategy-motive	theory of the MNB	modelling	others	US
Williams	1998	growth of the MNB	economics theory	modelling	others	Australia
Barajas, et al.	1999	performance	economics theory	modelling	others	Colombia
Clarke, et al.	1999	impact on domestic banking	theory of the MNB	modelling	others	Argentina
Denizer	1999	impact on domestic banking	economics theory	modelling	others	Turkey
Buch	2000	entry strategy-motive	economics theory	modelling	Germany	others

Authors	Year	Main Focus	Theoretical Base	Main Method	Home Market	Host Market
Claessens & Jansen	2000	impact on domestic banking	(not focused)	descriptive	others	LDCs
Guillen & Tschoegl	2000	entry strategy and growth	theory of the MNB	case study	Spain	Latin America
Khoury & Pal	2000	entry strategy and growth	theory of the MNE/MNB	descriptive	others	US
Blandon	2001	entry strategy-timing	eclectic paradigm	modelling	others	Spain
Claessens, et al.	2001	impact on domestic banking	economics theory	modelling	DCs/LDCs	LDCs/DCs
He & Gray	2001	growth of the MNB	(not focused)	descriptive	others	China
Mutinelli & Piscitello	2001	growth of the MNB	eclectic paradigm	modelling	Italy	others
Fuentelsaz, et al.	2002	entry strategy-timing	economics theory	modelling	others	Spain
Miller & Parkhe	2002	location-liabilities of foreignness	economics theory	modelling	global banking	
Williams	2002	performance	economics theory	modelling	others	Australia
Tschoegl	2002a	entry & survival	theory of the MNB	modelling	others	Norway
Tschoegl	2002b	entry strategy-motive	(not focused)	case study	others	US
Cattani & Tschoegl	2002	growth of the MNB	(not focused)	case study	(one bank)	others
Clark, et al.	2003	impact on domestic banking	economics theory	descriptive	others	LDCs
Focarelli & Pozzolo	2003	location & country of origin	economics theory	modelling	others	others
Leung & Young	2002	management	eclectic related	modelling	others	China

Authors	Year	Main Focus	Theoretical Base	Main Method	Home Market	Host Market
Lensink & Hermes	2003	impact on domestic banking	theory of the MNB	modelling	others	others
Leung, Rigby & Young	2003	entry & survival	eclectic related	modelling	others	China
Leung, Young & Rigby	2003	performance	eclectic related	modelling	others	China
Majnoni, et al.	2003	impact on domestic banking	economics theory	modelling	others	Hungary
Nachum	2003	location-liabilities of foreignness	eclectic related	modelling	others	London
Unite & Sullivan	2003	impact on domestic banking	(empirical literature)	modelling	others	Philippines
Akbar & McBride	2004	entry strategy-motive	(not focused)	descriptive	others	Hungary
DeYoung & Rice	2004	impact on domestic banking	(empirical literature)	modelling	others	Poland
Peria & Mody	2004	impact on domestic banking	(empirical literature)	modelling	others	Latin America
Kuilman & Li	2006	growth of the MNB	theory of the MNE	modelling	others	China-SH
Leung & Chan	2006	entry & survival	theory of the MNE	descriptive	others	China

Appendix B Meeting Guideline for Interview

Meeting Guideline

This guideline is designed in order to explore issues regarding the business development of foreign banks at branch level in China. The topic focuses on corporate banking activities of several foreign banks (i.e., branches) located in Beijing city or Shanghai city in China. People involved in this research include the general manager or the deputy general managers and senior managers who are in charge of marketing, operations and credit risk management of the branch.

** This Meeting Guideline is mainly used by the researcher during the interview. Tables are designed for the researcher only in order to make notes during the meeting. Between each two main different questions, conversation to lead the question is also semi-structured in order to enhance the quality of interview.*

BRANCH

Branch Name:

Branch Location:

MANAGER

Expatriate or Not?

Position:

Date of the Meeting:

Time of the Meeting:

Manager's bibliography

1.1 Banking Background

- **in Banking**
- **in Parent Bank**
- **in the Branch**

1.2 [for the Expatriates especially]

- **in Asia**
- **in China**

1.3 Current Status

- **Position**
- **Responsibility**

Investment Purposes of the Parent Bank

2. Literally, a branch does not have legal identity, so it is semi-autonomous. We may say activities of a foreign branch in China reflect the investment purposes of its parent bank.

2.1 Which investment purpose(s) can best describe the activities of the Bank in general in China? [GM]

2.2 Has the general purpose(s) changed ever since the entry, and Why? [GM]

Investment Purposes and Changes

Investment Purposes			Changes
Market Seeker:	<i>exploit or promote new market</i>	<input type="checkbox"/>	
Efficiency Seeker:	<i>To gain benefit of economic of scale and scope and of risk diversification (profit seeker)</i>	<input type="checkbox"/>	
Strategic Asset or Capability Seeker:	<i>To promote long-term strategic objective especially that of sustaining or advancing their international competitiveness</i>	<input type="checkbox"/>	
Other Investment Purposes		<input type="checkbox"/>	

Alternative Entry Mode

3. What is your attitude to Minority Stake Investment into the local Chinese Financial Institutions?

[Comment if not happened yet to the Bank]

- Purposes
- Synergy relation with current branching
- Involvement by the branch into decision-making

Resources Dependency

4. We assume that the parent bank provides various kinds of support to the Branch, especially at the EARLY stage of the development of the Bank in China.

4.1 Why are different resources from the parent bank important for YOUR JOB?

4.2 How are competitive advantages built up by deploying the resources?

4.3 Has the dependency changed since the entry of the Bank?

Dependence of the Branch on the Parent's Resources

Resources from the Parent Bank	Explain Why?
Access to funding sources of major currencies	
local currency	
foreign currency	
Managerial framework	
Existing knowledge and experience of China's market	
Existing knowledge and experience of other emerging markets	
Product diversification of the Parent Bank	
Existing customers with involvement in China	
Existing branch network established in China	
Skilled personnel sent by the Parent Bank	
Reputation of the Parent Bank in China	
Technology	
Other	

Management Control - Structural Control

5. The parent bank may in some way influence the organisation design of the Branch. In the meanwhile, the Branch probably has to fit its structure to the local environment in China.

5.1 Which orientation(s) can best describe the principle of organisational relationship between the parent bank and the branch?

- Why do you think the structure ‘fits’ the China market?
- Has the structure ever changed since the entry?

Parent-Branch Structural Relation	
Who is in direct charge of all the branches in China?	Which principle is followed to design the Branch structure?
A separate division from the Parent Bank	<input type="checkbox"/> Geography-orientated
A regional Head Office located in Asia	<input type="checkbox"/> Functional-orientated
A Head Office located in China	<input type="checkbox"/> Product-orientated
Other	<input type="checkbox"/> Customer-Orientated
Explain the choice	

5.2 Reporting Line for Your Position

- Describe it
- Why is the reporting line Efficient, or Not?

5.3 Authority in Your Position

- Define it
- Why is the authority Sufficient, or Not?

Management Control - Personal Control - Expatriate

6.1 What is the role of expatriates?

- *Role of Expatriates/Changes*
- *Impact on Quality of Local Staff*

Joint Effect under the impact of the Market and Regulatory Structure - Corporate Lending Business

7. As corporate banking especially corporate lending is interested in this research, the following questions try to understand the characteristics of the lending activities of the Branch.

7.1 What is the business scope of the Bank in China?

- *Main products/services in Corporate Banking and why?(Corporate versus FI)*
- *How do you compare the scope with competitors and Why?*
- *Has the scope ever changed? Why?*
- *Next development direction in China? Why?*

7.2 What are the top THREE important CORPORATE LENDING exposures according to the industry of the borrowers?

- *Identical to the parent bank in similar market?*
- *Changed? Why?*

Concentration of Lending Activities by Industry

Industries	Top 3 Important Industries	Explain Why?
Agriculture		
Mining and Quarrying		
Manufacturing		
Production and Supply of Electric, Gas and Water		
Construction		
Geological Prospecting and Water Conservancy		
Transportation and Storage		
Postal and Telecom Services		
Wholesale & Retail Trade		
Catering Services		
Real Estate		
Scientific Research, Arts, Education, Health Care		
Banking and Insurance		
Others		

7.3 What is the loan portfolio according to the country/region of origin of the borrowers?

- Ratio of each type? Why?
- Changed? Why?

Concentration by Clients' Home of Origin

Customers' Home Origin	Ranking by Importance	Explain Why?
Home country/region		
Host country		
Other		

7.4 How is the corporate business segmented by different purposes of lending?

- Ratio of each type? Why?
- Changed? Why?

Different Facilities by Lending Purposes

Different segments	Importance	Advantages and challenges for the Branch to provide the services?
Working capital		
Project finance		
Fixed asset purchasing		
Trade financing		
Other		

Marketing Orientations (Following the Client)

8. In the selected developing areas, the Branch may have tried to build up its own potential in establishing relations with local corporate customers.

8.1 How do you evaluate the marketing ability of the Branch over the past five years?

- *Referral /Self Developed Customer Ratio*
- *Define Ability*

Marketing Orientations (Searching for New Client)

9.1 How do you view the marketing ability of the Branch in the future?

- *Challenges in Marketing (Channels of acquiring information))*
- *Policy Update? Why?*
- *Ready for future market?*

Ability to Explore the Corporate Customers

Customer Groups	Evaluation of the Marketing Ability					Parent Bank Support?
	LOWEST	LOWER	AVERAGE	HIGHER	HIGHEST	
Existing clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
New foreign-invested clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
New Chinese local clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
big firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
small & medium firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
state-owned firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
private firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Cross-selling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Authority Control-Credit Assessment/Risk Control

10 Banking is an information-based industry. In corporate lending, the Branch needs to process information at each critical process in order to make the final lending decision.

10.1 *How do you evaluate your CORPORATE LENDING assessment ability?*

- *Define Ability*
- *Difficulties in Process(es)*
- *Identical to the parent bank*
- *Specific to the local market*
- *Solutions*
- *Policy Update? Why?*

10.2 *What is the Relationship between the Marketing Department, the Credit Assessment Department, and the Risk Management Department?*

- *Relationship*
- *Ratio of guaranteed and non-guaranteed?*
- *Turn Down Ratio and Reasons*
- *Tools and Technology*

10.3 *What about innovation of product as reflected in flexibility and creativity of the services?*

- *Define 'New Corporate Product' of 'Product Innovation' in China*
- *Initiation*
- *Flexibility and Creativity*
- *New licence(s) and implications*

Mitigating Risks under the Local Regulatory Impact

11. Foreign banks in China face the unique regulatory environment in China. To develop the business, a Branch has to mitigate the effect of specific rules and regulations.

11.1 Could you give some examples to explain the impact of any specific rules and regulations on the development of corporate banking services of the Branch?

- *Explain the Positive and Negative Impact of Regulations in Your Work*
 - *SAFE*
 - *CBRC*
 - *PBOC*
- *Solutions*

Competitive Advantage

12. Banking is in the service industry. The success of a branch relies on the quality of human resources.

12.1 How do you adjust the HR requirement and branch development?

- *Quality staff and Expansion Need*
- *Learning Culture*
- *Training System (Systematic versus On-the-job)*
- *Training Focus*

12.2 Could you explain you comment the competitiveness of the bank in this market?

- *What are the main advantages of the bank in the local market?*
- *What is the main concern for future development?*

Human Resources and Change

Different Dimensions					Any Dramatic Change?
Total Number of Employees	Specify	<50	50-100	>100	
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			yes	no	
Is General Manager sent by the Parent Bank?			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are all the Deputy General Managers sent by the Parent Bank (if applicable)?			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	marketing		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are middle managers in charge of key departments locally employed?	operation		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	compliance		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
% of selling/marketing employees to the total number of employees	Specify	<20%	20-35%	35-50%	
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
% of employees with working experience in local banking industry	Specify	<20%	20-50%	>50%	
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
% of employees with overseas education background	Specify	<5%	5-10%	>10%	
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
% of employees have degree equal to or above graduate degree	Specify	<20%	20-50%	>50%	
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other characteristics					

Appendix C Coding System of the Content Analysis

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Project: Foreign Bank Strategy Formation User: Administrator Date: 2007-7-11 - 15:49:00
NODE LISTING

Nodes in Set: All Tree Nodes
Created: 2006-2-3 - 9:45:48
Modified: 2006-2-4 - 9:45:48
Number of Nodes: 259

- 1 (1) /Global Strategy
- 2 (1 1) /Global Strategy/Global Product Segment Policy
- 3 (1 2) /Global Strategy/Global Market Segment Policy
- 4 (1 3) /Global Strategy/Global Integrated Service Policy
- 5 (1 4) /Global Strategy/Global Strategic Change

- 6 (2) /Local Strategy
- 7 (2 1) /Local Strategy/Local Segmentation Policy
- 8 (2 2) /Local Strategy/Local Market Development Policy
- 9 (2 3) /Local Strategy/Local Integrated Service Policy
- 10 (2 4) /Local Strategy/Local Strategic Change

- 11 (3) /Questions
- 12 (3 1) /Questions/Q1 Career
- 13 (3 1 1) /Questions/Q1 Career/role played
- 14 (3 1 2) /Questions/Q1 Career/overseas industry experience

- 15 (3 2) /Questions/Q4 OSA-Resource
- 16 (3 2 1) /Questions/Q4 OSA-Resource/size
- 17 (3 2 2) /Questions/Q4 OSA-Resource/Access to Funding
- 18 (3 2 2 1) /Questions/Q4 OSA-Resource/Access to Funding/Local Currency
- 19 (3 2 2 2) /Questions/Q4 OSA-Resource/Access to Funding/Foreign Currency
- 20 (3 2 3) /Questions/Q4 OSA-Resource/Global Knowledge & Experience
- 21 (3 2 3 1) /Questions/Q4 OSA-Resource/Global Knowledge & Experience/Technology
- 22 (3 2 3 2) /Questions/Q4 OSA-Resource/Global Knowledge & Experience/policy guidance
- 23 (3 2 3 3) /Questions/Q4 OSA-Resource/Global Knowledge & Experience/multinational experience
- 24 (3 2 4) /Questions/Q4 OSA-Resource/Local Knowledge & Experience
- 25 (3 2 4 1) /Questions/Q4 OSA-Resource/Local Knowledge & Experience/Gained by the first move
- 26 (3 2 4 2) /Questions/Q4 OSA-Resource/Local Knowledge & Experience/Gained by direct experience
- 27 (3 2 4 3) /Questions/Q4 OSA-Resource/Local Knowledge & Experience/Gained by upgrade local ability
- 28 (3 2 5) /Questions/Q4 OSA-Resource/Scope of Global Network
- 29 (3 2 5 1) /Questions/Q4 OSA-Resource/Scope of Global Network/number of outlets
- 30 (3 2 5 2) /Questions/Q4 OSA-Resource/Scope of Global Network/number of countries
- 31 (3 2 5 3) /Questions/Q4 OSA-Resource/Scope of Global Network/emerging market outlets
- 32 (3 2 6) /Questions/Q4 OSA-Resource/Bank's Creditworthiness
- 33 (3 2 6 1) /Questions/Q4 OSA-Resource/Bank's Creditworthiness/bank ranking
- 34 (3 2 7) /Questions/Q4 OSA-Resource/Availability of Skilled Personnel
- 35 (3 2 8) /Questions/Q4 OSA-Resource/Product Differentiability
- 36 (3 2 8 1) /Questions/Q4 OSA-Resource/Product Differentiability/Advantage in Special Areas
- 37 (3 2 8 2) /Questions/Q4 OSA-Resource/Product Differentiability/Replication & Innovation
- 38 (3 2 9) /Questions/Q4 OSA-Resource/Possession of International Clients
- 39 (3 2 10) /Questions/Q4 OSA-Resource/Possession of Unique System
- 40 (3 2 10 1) /Questions/Q4 OSA-Resource/Possession of Unique System/IT
- 41 (3 2 10 2) /Questions/Q4 OSA-Resource/Possession of Unique System/Transaction Procedure
- 42 (3 2 11) /Questions/Q4 OSA-Resource/Possession of Unique Culture

- 43 (3 3) /Questions/Q2 Motives
- 44 (3 3 1) /Questions/Q2 Motives/Market-seeking
- 45 (3 3 1 1) /Questions/Q2 Motives/Market-seeking/Retail Banking
- 46 (3 3 1 2) /Questions/Q2 Motives/Market-seeking/Corporate Banking
- 47 (3 3 1 3) /Questions/Q2 Motives/Market-seeking/Service
- 48 (3 3 2) /Questions/Q2 Motives/Profit-seeking
- 49 (3 3 3) /Questions/Q2 Motives/Knowledge-seeking
- 50 (3 3 3 1) /Questions/Q2 Motives/Knowledge-seeking/content

- 51 (3 3 3 1 1) /Questions/Q2 Motives/Knowledge-seeking/content/know customer
- 52 (3 3 3 1 22) /Questions/Q2 Motives/Knowledge-seeking/content/know product localisation
- 53 (3 3 3 1 33) /Questions/Q2 Motives/Knowledge-seeking/content/know competitor
- 54 (3 3 3 1 44) /Questions/Q2 Motives/Knowledge-seeking/content/know detail operation
- 55 (3 3 3 1 55) /Questions/Q2 Motives/Knowledge-seeking/content/know local market
- 56 (3 3 3 1 66) /Questions/Q2 Motives/Knowledge-seeking/content/know local risk
- 57 (3 3 3 1 77) /Questions/Q2 Motives/Knowledge-seeking/content/know regulation
- 58 (3 3 3 2) /Questions/Q2 Motives/Knowledge-seeking/approach
- 59 (3 3 3 2 1) /Questions/Q2 Motives/Knowledge-seeking/approach/Internal R&D and network effect
- 60 (3 3 3 2 2) /Questions/Q2 Motives/Knowledge-seeking/approach/special business network
- 61 (3 3 3 2 3) /Questions/Q2 Motives/Knowledge-seeking/approach/customer
- 62 (3 3 3 2 4) /Questions/Q2 Motives/Knowledge-seeking/approach/market intelligence
- 63 (3 3 3 2 5) /Questions/Q2 Motives/Knowledge-seeking/approach/internet or public media
- 64 (3 3 3 2 6) /Questions/Q2 Motives/Knowledge-seeking/approach/local government
- 65 (3 3 4) /Questions/Q2 Motives/Customer-following
- 66 (3 3 4 5) /Questions/Q2 Motives/Customer-following/customer-bank relation
- 67 (3 3 5) /Questions/Q2 Motives/Efficiency-seeking
- 68 (3 3 8) /Questions/Q2 Motives/Following the Competitors

- 69 (3 4) /Questions/Q3 Entry Mode
- 70 (3 4 1) /Questions/Q3 Entry Mode/Branch and Sub-branch
- 71 (3 4 1 1) /Questions/Q3 Entry Mode/Branch and Sub-branch/purposes
- 72 (3 4 1 1 1) /Questions/Q3 Entry Mode/Branch and Sub-branch/purposes/mainly for maintain customers
- 73 (3 4 1 1 2) /Questions/Q3 Entry Mode/Branch and Sub-branch/purposes/mainly for market expansion
- 74 (3 4 1 5) /Questions/Q3 Entry Mode/Branch and Sub-branch/branching status
- 75 (3 4 1 5 2) /Questions/Q3 Entry Mode/Branch and Sub-branch/branching status/expansion scale & speed
- 76 (3 4 1 5 3) /Questions/Q3 Entry Mode/Branch and Sub-branch/branching status/expansion location
- 77 (3 4 1 5 3 1) /Questions/Q3 Entry Mode/Branch and Sub-branch/branching status/expansion location/Regulation Reason
- 78 (3 4 1 5 3 2) /Questions/Q3 Entry Mode/Branch and Sub-branch/branching status/expansion location/Local Economic Condition
- 79 (3 4 1 5 4) /Questions/Q3 Entry Mode/Branch and Sub-branch/branching status/local network effect
- 80 (3 4 1 5 4 1) /Questions/Q3 Entry Mode/Branch and Sub-branch/branching status/local network effect/role of branch
- 81 (3 4 1 6) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion
- 82 (3 4 1 6 1) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by OSA deployed
- 83 (3 4 1 6 1 1) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by OSA deployed/funding
- 84 (3 4 1 6 1 2) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by OSA deployed/knowledge & experience
- 85 (3 4 1 6 1 3) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by OSA deployed/scope of global network
- 86 (3 4 1 6 1 4) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by OSA deployed/bank's creditworthiness
- 87 (3 4 1 6 1 5) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by OSA deployed/product differentiation
- 88 (3 4 1 6 1 6) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by OSA deployed/possession of international clients
- 89 (3 4 1 6 1 7) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by OSA deployed/availability of skilled personnel
- 90 (3 4 1 6 2) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by market demand
- 91 (3 4 1 6 3) /Questions/Q3 Entry Mode/Branch and Sub-branch/difficulties in expansion/caused by regulation
- 92 (3 4 2) /Questions/Q3 Entry Mode/Equity Investment
- 93 (3 4 2 2) /Questions/Q3 Entry Mode/Equity Investment/Banking
- 94 (3 4 2 2 1) /Questions/Q3 Entry Mode/Equity Investment/Banking/purpose
- 95 (3 4 2 2 1 2) /Questions/Q3 Entry Mode/Equity Investment/Banking/purpose/relation to other entry motive
- 96 (3 4 2 2 1 3) /Questions/Q3 Entry Mode/Equity Investment/Banking/purpose/to share customer base
- 97 (3 4 2 2 1 4) /Questions/Q3 Entry Mode/Equity Investment/Banking/purpose/to expand product scope
- 98 (3 4 2 2 1 6) /Questions/Q3 Entry Mode/Equity Investment/Banking/purpose/to share promotion network
- 99 (3 4 2 2 1 7) /Questions/Q3 Entry Mode/Equity Investment/Banking/purpose/financial investor
- 100 (3 4 2 2 2) /Questions/Q3 Entry Mode/Equity Investment/Banking/investment status
- 101 (3 4 2 2 3) /Questions/Q3 Entry Mode/Equity Investment/Banking/risks
- 102 (3 4 2 2 3 1) /Questions/Q3 Entry Mode/Equity Investment/Banking/risks/caused by partner selection
- 103 (3 4 2 2 3 2) /Questions/Q3 Entry Mode/Equity Investment/Banking/risks/caused by issue of control
- 104 (3 4 2 2 3 3) /Questions/Q3 Entry Mode/Equity Investment/Banking/risks/caused by conflicting motives
- 105 (3 4 2 3) /Questions/Q3 Entry Mode/Equity Investment/Non Banking
- 106 (3 4 3) /Questions/Q3 Entry Mode/Strategic Partnership
- 107 (3 4 4) /Questions/Q3 Entry Mode/Subsidiary
- 108 (3 4 5) /Questions/Q3 Entry Mode/Representative

- 109 (3 5) /Questions/Q5 Control by Structure
- 110 (3 5 1) /Questions/Q5 Control by Structure/address part of matrix structure
- 111 (3 5 1 111) /Questions/Q5 Control by Structure/address part of matrix structure/Geographical focused
- 112 (3 5 1 222) /Questions/Q5 Control by Structure/address part of matrix structure/Customer focused
- 113 (3 5 1 333) /Questions/Q5 Control by Structure/address part of matrix structure/Product focused
- 114 (3 5 1 444) /Questions/Q5 Control by Structure/address part of matrix structure/Product & Function
- 115 (3 5 1 555) /Questions/Q5 Control by Structure/address part of matrix structure/Product, Customer and Geographical
- 116 (3 5 2) /Questions/Q5 Control by Structure/upgrade local identity
- 117 (3 5 2 111) /Questions/Q5 Control by Structure/upgrade local identity/no intention
- 118 (3 5 2 222) /Questions/Q5 Control by Structure/upgrade local identity/considering
- 119 (3 5 2 444) /Questions/Q5 Control by Structure/upgrade local identity/actual move
- 120 (3 5 4) /Questions/Q5 Control by Structure/delegated authority
- 121 (3 5 4 1) /Questions/Q5 Control by Structure/delegated authority/branch manager is important
- 122 (3 5 4 2) /Questions/Q5 Control by Structure/delegated authority/branch manager is less important

- 123 (3 6) /Questions/Q6 Control by Expatriate
- 124 (3 6 1) /Questions/Q6 Control by Expatriate/status of using expatriates
- 125 (3 6 2) /Questions/Q6 Control by Expatriate/major role of expatriates
- 126 (3 6 2 1) /Questions/Q6 Control by Expatriate/major role of expatriates/international expertise
- 127 (3 6 2 4) /Questions/Q6 Control by Expatriate/major role of expatriates/customer relation
- 128 (3 6 2 6) /Questions/Q6 Control by Expatriate/major role of expatriates/bank culture transfer
- 129 (3 6 3) /Questions/Q6 Control by Expatriate/reliance in the future
- 130 (3 6 3 1) /Questions/Q6 Control by Expatriate/reliance in the future/Decreased Demanding
- 131 (3 6 3 3) /Questions/Q6 Control by Expatriate/reliance in the future/No Change

- 132 (3 7) /Questions/Q10 Control by Policy concerning Authority Delegation
- 133 (3 7 1) /Questions/Q10 Control by Policy Making/information base
- 134 (3 7 2) /Questions/Q10 Control by Policy Making/local decision authority
- 135 (3 7 2 1) /Questions/Q10 Control by Policy Making/local decision authority/Based in Parent Bank
- 136 (3 7 2 222) /Questions/Q10 Control by Policy Making/local decision authority/Cross with Local Bank
- 137 (3 7 2 333) /Questions/Q10 Control by Policy Making/local decision authority/Based in Local Branch
- 138 (3 7 3) /Questions/Q10 Control by Policy Making/marketing and credit policy relation

- 139 (3 8) /Questions/Q8 Marketing by Following the Client
- 140 (3 8 1) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment
- 141 (3 8 1 1) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Size
- 142 (3 8 1 2) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Access to funding
- 143 (3 8 1 3) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Global Knowledge & Experience
- 144 (3 8 1 3 12) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Global Knowledge & Experience/policy guideline
- 145 (3 8 1 5) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Scope of Global Network-Referral
- 146 (3 8 1 5 4) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Scope of Global Network-Referral/Local Knowledge & Experience
- 147 (3 8 1 6) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Banks' Creditworthiness
- 148 (3 8 1 7) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Availability of Skilled Personnel
- 149 (3 8 1 8) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Product Differentially
- 150 (3 8 1 9) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Possession of International Client
- 151 (3 8 1 9 7) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Possession of International Client/Referral
- 152 (3 8 1 10) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Possession of Risk Management System
- 153 (3 8 1 11) /Questions/Q8 Marketing by Following the Client/OSA-Resource Deployment/Possession of Unique Culture
- 154 (3 8 2) /Questions/Q8 Marketing by Following the Client/Regulatory Impact on this Point
- 155 (3 8 3) /Questions/Q8 Marketing by Following the Client/Market Impact on this Point
- 156 (3 8 3 1) /Questions/Q8 Marketing by Following the Client/Market Impact on this Point/market demand
- 157 (3 8 3 2) /Questions/Q8 Marketing by Following the Client/Market Impact on this Point/competition in supply
- 158 (3 8 4) /Questions/Q8 Marketing by Following the Client/Risk Concern
- 159 (3 8 4 3) /Questions/Q8 Marketing by Following the Client/Risk Concern/risk
- 160 (3 8 4 4) /Questions/Q8 Marketing by Following the Client/Risk Concern/risk mitigation
- 161 (3 8 5) /Questions/Q8 Marketing by Following the Client/Banking Normative

- 162 (3 9) /Questions/Q9 Marketing by Searching the Client
- 163 (3 9 1) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development
- 164 (3 9 1 1) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Size
- 165 (3 9 1 2) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Access to Funding
- 166 (3 9 1 3) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Global Knowledge & Experience
- 167 (3 9 1 4) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Local Knowledge-Customer Information
- 168 (3 9 1 5) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Scope of Global Network
- 169 (3 9 1 6) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Banks' Creditworthiness
- 170 (3 9 1 7) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Availability of Skilled Personnel
- 171 (3 9 1 8) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Product Differentially
- 172 (3 9 1 9) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Possession of International Client
- 173 (3 9 1 10) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Possession of Risk Management System
- 174 (3 9 1 11) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Possession of Unique Culture
- 175 (3 9 1 11 10) /Questions/Q9 Marketing by Searching the Client/OSA-Resource Development/Possession of Unique Culture/language
- 176 (3 9 2) /Questions/Q9 Marketing by Searching the Client/Regulatory Impact on this Point
- 177 (3 9 3) /Questions/Q9 Marketing by Searching the Client/Market Impact on this Point
- 178 (3 9 3 2) /Questions/Q9 Marketing by Searching the Client/Market Impact on this Point/market demand
- 179 (3 9 3 8) /Questions/Q9 Marketing by Searching the Client/Market Impact on this Point/competition in supply
- 180 (3 9 3 8 1) /Questions/Q9 Marketing by Searching the Client/Market Impact on this Point/competition in supply/with foreign banks
- 181 (3 9 3 8 2) /Questions/Q9 Marketing by Searching the Client/Market Impact on this Point/competition in supply/with local Chinese banks
- 182 (3 9 4) /Questions/Q9 Marketing by Searching the Client/Risk Concern
- 183 (3 9 4 4) /Questions/Q9 Marketing by Searching the Client/Risk Concern/Risk Mitigation
- 184 (3 9 5) /Questions/Q9 Marketing by Searching the Client/Status of Touching Local Corporate
- 185 (3 9 5 2) /Questions/Q9 Marketing by Searching the Client/Status of Touching Local Corporate/is now important
- 186 (3 9 5 3) /Questions/Q9 Marketing by Searching the Client/Status of Touching Local Corporate/will be important
- 187 (3 9 5 4) /Questions/Q9 Marketing by Searching the Client/Status of Touching Local Corporate/won't be important
- 188 (3 9 6) /Questions/Q9 Marketing by Searching the Client/Banking Normative

- 189 (3 10) /Questions/Q7 Joint Effect of Market and Regulatory Conditions
- 190 (3 10 1) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration
- 191 (3 10 1 1) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Target Customer
- 192 (3 10 1 1 1) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Target Customer/non-financial corporate
- 193 (3 10 1 1 1 1) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Target Customer/non-financial corporate/customer size
- 194 (3 10 1 1 1 22) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Target Customer/non-financial corporate/customer ownership
- 195 (3 10 1 1 1 33) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Target Customer/non-financial corporate/customer nationality
- 196 (3 10 1 1 1 44) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Target Customer/non-financial corporate/focus
- 197 (3 10 1 1 7) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Target Customer/financial institution
- 198 (3 10 1 2) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Regulatory Concern
- 199 (3 10 1 3) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Market Concern
- 200 (3 10 1 4) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Risk Concern
- 201 (3 10 1 5) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/OSA-Resource for Customer Focus
- 202 (3 10 1 6) /Questions/Q7 Result of Marketing Mix Decisions/Customer Concentration/Banking Normative
- 203 (3 10 2) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration
- 204 (3 10 2 1) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/Target Product
- 205 (3 10 2 1 1) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/Target Product/working capital loan
- 206 (3 10 2 1 2) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/Target Product/trade finance
- 207 (3 10 2 1 3) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/Target Product/special
- 208 (3 10 2 2) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/Regulatory Concern

- 209 (3 10 2 3) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/Market Concern
210 (3 10 2 4) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/Risk Concern
211 (3 10 2 5) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/OSA-Resource for Product Focus
212 (3 10 2 6) /Questions/Q7 Result of Marketing Mix Decisions/Product Concentration/Banking Normative
213 (3 10 4) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration
214 (3 10 4 1) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration/Target Industries
215 (3 10 4 1 1) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration/Target Industries/focused
216 (3 10 4 1 2) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration/Target I industries/diversified
217 (3 10 4 2) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration/Regulatory Concern
218 (3 10 4 3) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration/Market Concern
219 (3 10 4 4) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration/Risk Concern
220 (3 10 4 5) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration/OSA-Resource for Industry Focus
221 (3 10 4 6) /Questions/Q7 Result of Marketing Mix Decisions/Industry Concentration/Banking Normative
- 222 (3 11) /Questions/Q11 Regulatory Impact
223 (3 11 3) /Questions/Q11 Regulatory Impact/Regulatory institutions
224 (3 11 3 1) /Questions/Q11 Regulatory Impact/Regulatory institutions/Regulatory Environment
225 (3 11 3 1 2) /Questions/Q11 Regulatory Impact/Regulatory institutions/Regulatory Environment/regulation is not or well codified
226 (3 11 3 1 3) /Questions/Q11 Regulatory Impact/Regulatory institutions/Regulatory Environment/regulation is not coherent
227 (3 11 3 1 4) /Questions/Q11 Regulatory Impact/Regulatory institutions/Regulatory Environment/regulation is not stable
228 (3 11 3 1 222) /Questions/Q11 Regulatory Impact/Regulatory institutions/Regulatory Environment/Complex due to local government
229 (3 11 3 2) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constraints in Business Scope
230 (3 11 3 2 1) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constraints in Business Scope/Constraints on Product Scope
231 (3 11 3 2 2) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constraints in Business Scope/Constraints on Geographical Scope
232 (3 11 3 2 3) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constraints in Business Scope/Constraints on Customer Scope
233 (3 11 3 2 4) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constraints in Business Scope/Constrain on currency
234 (3 11 3 3) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constraints on Branching Control
235 (3 11 3 4) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constrains in Detailed Operation
236 (3 11 3 4 1) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constrains in Detailed Operation/Interest Rate Control
237 (3 11 3 4 2) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constrains in Detailed Operation/Foreign Debt Control
238 (3 11 3 4 3) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constrains in Detailed Operation/Account Control
239 (3 11 3 4 4) /Questions/Q11 Regulatory Impact/Regulatory institutions/Constrains in Detailed Operation/Reporting System Control
240 (3 11 4) /Questions/Q11 Regulatory Impact/Normative institutions
241 (3 11 4 1) /Questions/Q11 Regulatory Impact/Normative institutions/interpretation
242 (3 11 4 2) /Questions/Q11 Regulatory Impact/Normative institutions/law enforcement
243 (3 11 4 3) /Questions/Q11 Regulatory Impact/Normative institutions/network effect
244 (3 11 5) /Questions/Q11 Regulatory Impact/Cognitive institutions-Market
245 (3 11 5 1) /Questions/Q11 Regulatory Impact/Cognitive institutions-Market/lack of business convention
246 (3 11 5 2) /Questions/Q11 Regulatory Impact/Cognitive institutions-Market/credit culture
247 (3 11 5 3) /Questions/Q11 Regulatory Impact/Cognitive institutions-Market/conflict resolution
248 (3 11 7) /Questions/Q11 Regulatory Impact/Home Regulation
- 249 (3 13) /Questions/Q12 Competitive Advantage
250 (3 13 1) /Questions/Q12 Competitive Advantage/Compared with MNBs
251 (3 13 2) /Questions/Q12 Competitive Advantage/Compared with LBs
252 (3 13 3) /Questions/Q12 Competitive Advantage/Deal with Regulator
253 (3 13 3 1) /Questions/Q12 Competitive Advantage/Deal with Regulator/General Attitude
254 (3 13 3 2) /Questions/Q12 Competitive Advantage/Deal with Regulator/Mitigation Advantages
255 (3 13 4) /Questions/Q12 Competitive Advantage/Differentiation Strategies
256 (3 13 4 3) /Questions/Q12 Competitive Advantage/Differentiation Strategies/product
257 (3 13 4 4) /Questions/Q12 Competitive Advantage/Differentiation Strategies/people
258 (3 13 4 4 1) /Questions/Q12 Competitive Advantage/Differentiation Strategies/people/outsource
259 (3 13 4 4 2) /Questions/Q12 Competitive Advantage/Differentiation Strategies/people/internal upgrade

Appendix D-1 Evidence of Different Strategic Entry Motive Decisions

Evidence as summarised by Table 7.3 Seeking Local Wholesale Banking Segment

Decision Status 1 (Case 6)

In Case 6, the bank makes a clear decision not to expand the local corporate banking, as the regional manager (6.1/S-REG) noted, *“Our core client base is not the Chinese, not the local Chinese corporate, but is the American corporate.”* The bank is active in searching for customers of the same home market origin or regional market origin. The marketing manager (6.2/M-MAR) explained, *“In fact, our sales people will try to identify North American customers here, and transfer the information to our RM (relations manager) at home to study the customer together. This customer may have already had a credit line relationship with us.”*

Decision Status 2 (Cases 2, 4, 5, and 7)

In Case 2, the bank is considering targeting the local corporate. As noted by the credit manager (2.3/M-CRE), *“What we are planning to do is, from next year, to slowly start doing business with the Chinese corporate...”* For the present operations at the present time, the bank puts most effort into maintaining the existing clients of the same home market origin. As the marketing manager (2.4/S-MAR) explained, *“Since we don’t have so many people here, first of all I am trying to acquire customers or to keep them.”*

In Case 4, the bank is thinking of penetrating further into the local market. As the deputy general manager (4.1/S/DGM) confirmed, *“I have started thinking about how to expand the business in China...I believe one of our future development directions is the Chinese local enterprise because the Japanese corporate is limited.”* The operation manager (4.2/M-OPE) explained, *“To approach Chinese local corporate, I don’t think the bank has strong strategic motivation. ...Now, we start being active again, but only to the degree to target the golden names.”*

In Case 5, the bank starts thinking about how to target the local corporate. As the marketing manager (5.1/M-MAR) explained, *“To do business with the Chinese corporates, we already have the basic platform.”* The credit manager (5.3/M-CRE)

explained, *"The Shanghai Branch and Hong Kong Branch have set up an agreement of cooperation. Because the Hong Kong Branch has better knowledge of local Chinese customers ...the other branches in China also start thinking how to explore local Chinese corporate clients."*

In Case 7, targeting the local Chinese corporate is considered. As the operations manager (7.1/S-OPE) noted, *"(The bank) entered into China does not necessarily only serve the subsidiaries of the multinationals but also targets the local Chinese corporate because comparatively the Chinese corporate market is much larger."* Explained further by the marketing manager (7.2/S-MAR), *"(The bank) is now having a medium-long term strategy for China. In that strategy we build up the business focus, which is quite different from our only relying on the referral clients. Now we are going to tap into the local market."*

Decision Status 3 (Cases 1, 3, 8, 9 and 10)

In Case 1, serving the existing client is important, but searching new local customers is the real target. As noted by the credit manager (1.2/M-CRE/LM), *"The marketing people need to maintain both the referred customers by the parent bank and need to identify local customers as well. Most of our effort is put into identifying new customers."* According to the deputy general manager (1.3/S-DGM/OPE), *"The self-identified customers are increasing these years."*

In Case 3, the bank searches the local Chinese corporate clients aggressively. As the general manager (3.2/S-GM) noted, *"... we are actively rather than passively working in the market, because we are not only developing business with multinationals, but also with the Chinese financial institutions and corporates."* The marketing manager (3.1/S-MAR) said, *"What I mean by the Chinese corporate in the past few years mainly refers to those Chinese enterprises that have invested abroad. Now, the Chinese corporate includes the local Chinese corporate, both the state-owned and the privately-owned enterprises."*

In Case 8, tapping into the local firms is part of the strategy. The bank has aggressive expansion motives for seeking the local market in every segment to gain a leading position. The marketing manager (8.1/S-MAR) explained, *“One of the key criteria of success by which we measure ourselves is the market importance, i.e., how much market share we have with respect to the products we offer to the customer. If we were not ranked in the top three, we must know why. We need to figure out how to get there.”*

In Case 9, the local Chinese corporates are within the coverage of its overall expansion targets. As the operations manager (9.3/S-OPE) noted, *“We do not have limitations in targeting customers. We have different teams covering a very wide range of customers in terms of industry, location. We have a multinational team, an Asian corporate team, and an emerging market team, and small and medium enterprise teams, which have done very well in the last year’s performance. So I think we are expanding in three hundred and sixty degrees.”*

In Case 10, targeting local corporates is part of the scope of business. As noted by the general manager (10.2/S-GM), *“(The bank) is developing a complete coverage of banking in China ... focusing not only on corporate banking but also on consumer banking, not only on trade finance, but also project finance and working capital finance.”* The bank has moved far beyond only maintaining the existing FIEs, the same manager indicated, *“(We) are ready for any opportunity available to us. That shows our appetite for the China market.”*

Evidence as summarised by Table 7.4 Seeking Local Retail Banking Segment

Decision Status 1 (Cases 2 and 6)

In Case 2, the retail segment does not drive the bank to enter or expand in the local market. As the credit manager (2.3/M-CRE) noted, *“(The Bank) will never be a retail bank in China.”* As the marketing manager (2.4/S-MAR) indicated, *“From a strategic point of view if we were going for the retail business, we would have sat down to develop the strategy for China.”*

In Case 6, the general manager (6.4/S-GM) expressed the view that seeking the retail banking market is unrealistic. He explained, *"We do not do retails. With the branching in China, I don't think you are there to invest in retail."* The regional manager (6.1/S-REG) also noted, *"It is difficult for us to link doing retail business on a broad basis in Asia to our core strategies."*

Decision Status 2 (Cases 4 and 5)

In Case 4, the bank is not motivated to seek the retail banking market for the moment, but possibly in the future. As the deputy general manager (4.1/S-DGM) noted, *"...for the moment, we focus on corporate banking. For the future, I mean in the next five or ten years, we plan to expand business in corporate banking and see the retail banking opportunities."*

In Case 5, the bank treats retail banking and personal banking as the plan for the future. As the marketing manager (5.1/M-MAR) noted, *"... talking about overseas branches' businesses, our focus is on the corporate side and also investment banking because both are good to serve our corporate clients. But we do not touch retail banking, not yet, maybe in the future. Conducting retail banking requires a very heavy cost, especially the initial costs."*

Decision Status 3 (Cases 1, 3 and 7)

In Case 1, the bank is preparing to target common local individuals for the retail business. As the deputy general manager (1.3/S-DGM/OPE) noted, *"In principle, we want to target all the customers."* He also said *"For the moment, corporate banking is still the main business because we are the foreign banks. But we are preparing for expansion into retail banking in the future."*

In Case 3, the bank is driven to conduct retail banking with gradual preparation. As the marketing manager (3.1/S-MAR) noted, *"In terms of the retail banking product, my understanding is that we are not that aggressive. This relates to resources and strategy."* The general manager (3.2/S-GM) explained the preparation needed to conduct retail banking when mentioning that the local strategic partner actually

“...helps (the bank) to understand better how retail banking works in China.”

In Case 7, the retail banking market is pursued but only in preparation. As the country operations officer (7.3/S-COO) noted, *“For future development, we will focus on both, on corporate banking for sure. It is also private banking because the market is just about to develop. We will also develop retail banking just for the man in the street.”*

Decision Status 4 (Cases 8, 9 and 10)

In Case 8, the bank is seeking every market within a broader scope of segment. In fact, a similar aggressive approach has been taken in many other markets. As the marketing manager (8.1/S-MAR) noted, *“As you may know, (the bank) globally has business lines in wealth management, corporate investment banking, private banking etc. For each business line, we have a certain level of operation in China.”*

In Case 9, the bank plays a full part in every segment. As the operations manager (9.3/S-OPE) commented, *“(The bank) will adopt an approach on both sides to working on both retail and wholesale banking in China. The bank has expanded very quickly for the past one or two years. Especially in consumer banking, the team/headcounts people expand very quickly. The business expands very quickly.”*

In Case 10, seeking the retail banking market is evidently the entry motive of the bank. The general manager (10.2/S-GM) explained, *“The primary reason for which (the bank) targets retail banking is the huge potential of the China market particularly for retail banking because the population and the national economy of China is taking off.”*

Evidence as summarised by Table 7.5 The Knowledge Seeking Motive – Market Information

Decision Status 1 (Cases 2 and 6)

In Case 2, the bank bases its knowledge on its existing customers. As the chief operations officer (2.2/S-COO) said, *“Market knowledge (of the bank) focuses on Germany. We know more about our customers so that we can assess the risk more accurately.”* Regarding local knowledge, the same manager noted, *“...one part of the*

market knowledge is about the competitors, which is also not so difficult to know because all the foreign bank people know each other..."

In Case 6, the bank does not address the importance of obtaining information about the local market. The product is initiated but not closely related to the local market knowledge. As the regional manager (6.1/S-REG) noted, *"Generally this is a very conservative bank. It is not common that the (parent bank) pushes us to innovate. Normally we will feedback our idea to ask what we can do and what support we can get. This is not a highly innovative market."* As the general manager (6.4/S-GM) mentioned, *"...We are not leading the market, rather we are following others...to be a leader, and it is very expensive."*

Decision Status 2 (Cases 4 and 5)

In Case 4, the bank selects customers based on the information they possess. As the operations manager (4.2/M-OPE) addressed, *"No matter how competition changes, for the long term, we target the good names. We won't target the SMEs (small and medium enterprises) because we don't understand them."* The product design is based on local knowledge. The deputy general manager (4.1/S-DGM) explained, *"We have product development people based in Shanghai. Those people are in charge of the corporate product development in China for different branches."* In terms of knowing the competitors, the operations manager (4.2/M-OPE) explained, *"Sometimes we rely on consultancy companies to know about our competitors. In general, it is not that difficult to collect information in this regard."* Knowledge in practice is more important. As the operations manager (4.2/M-OPE) noted, *"The most difficult part is the specific business knowledge."*

In Case 5, knowledge of local customers suggests why certain customers are targeted. The credit manager (5.3/M-CRE) said, *"In dealing with non-Japanese banks, the problem is that it is difficult to get to know the real situation of the customers. Even for a listed Chinese company with public information, we still could not understand the overall situation of the company."* The information from the customer is used for the product design. As the marketing manager (5.1/M-MAR) pointed out, *"... If any*

marketing staff hears about a new request from the customer, he raises the question and we discuss...” Knowing competitors is not regarded as very challenging, the deputy general (5.2/S-DGM/OPE) manager noted, *“About communication with other competitors, we have communication when we are not sure about certain regulations, or whether any conduct is actually appropriate.”* Details in operation are important. The operations manager (5.2/S-DGM/OPE) suggested, *“Working in China, individual staff in operations need to be very careful and efficient.”*

Decision Status 3 (Cases 3, 7 and 9)

In Case 3, the bank puts effort into acquiring and assessing information on local customers. As the general manager (3.1/S-GM) noted, *“For pure local Chinese enterprises, you have to spend lots of time in due diligence with the local corporate.”* With the information about the customer, the service is localised. As the marketing manager (3.1/S-MAR) explained, *“In order to expand the market and to find more customers, we have to be very active in offering flexible services.”* Knowledge for detailed practice is crucial. The general manager (3.1/S-GM) explained further, *“We have lots of macro economists. What is more difficult is to get micro figures and local figures. Local figures suggest that the local economy of specific cities is more difficult to obtain.”*

In Case 7, to acquire customer knowledge is both important and challenging. Noted by the chief operations officer (3.3/S-COO), *“We absolutely target the local corporate; we see that is the potential. But it is true that to acquire quality information is difficult.”* Because of the limited information on the customer, *“The only thing we may try is perhaps the service or the way of pricing in order to be more competitive”*. Knowledge in detailed practice is important. The same manager reflected, *“China is a very complex environment that you really need to understand very thoroughly before you can implement certain structures and strategies.”*

In Case 9, the bank is active in getting to know the customer and know what products or services are required in the local market. As the general manager (9.1/S-GM) noted, *“What a local branch needs to do is to provide the knowledge and to give the feedback*

and advice to the parent bank. To say, for example, we really want this product but we need to modify it in order to penetrate the China market.” The detail of practice is important. As the general manager (9.1/S-GM) noted, “I really want people with a good knowledge of operations so that they do not make mistakes.... We do hope that we have a whole batch of people who really stay in the market to know what exactly it is.”

Decision Status 4 (Cases 8 and 10)

In Case 8, the bank is active in acquiring information on customers and products. The bank relies on local information to design the product and service. As the marketing manager (8.1/S-MAR) noted, *“We have a local Chinese product team who focus primarily on local product development. So we can, on the business side, raise customer demand by mentioning it, prioritising it and then the product team will start doing it.”*

In Case 10, local information regarding customer and product are crucial. As the marketing manager (10.1/S-MAR) noted, *“... the key challenge for us in the local market is to have customer information or due diligence information. Sometimes you cannot get good enough channels to get the information, which is something you have to be very careful with.”* Products and services are designed based on the local market. The same manager explained, *“In China we do our own product development. We have dedicated resources for product development in China.”*

Decision Status 5 (Case 1)

In Case 1, the operations manager (1.1/M-OPE) noted, *“To develop the business, we need to have information about the customer, otherwise we never touch those customers.”* The marketing manager (1.4/S-DGM/MAR) highlighted that knowledge of local market has enabled the bank to be competitive in certain products. He said, *“With the local knowledge, we have a strategy of targeting the property industry that those European banks and American banks won’t easily get involved in.”* Detailed operational knowledge is also accumulated. As the credit manager noted, *“...the Branch has more detailed, operational information that the Parent may not have.”*

Appendix D-2 Evidence of Different Strategic Entry Mode Decisions

Evidence as summarised by Table 7.9-7.12 Branching Decisions

Decision Status 1 (Case 1, 8, 9 and 10)

In Case 1, the bank keeps expanding branches for a wider geographical scope. As noted by the deputy general manager (1.5/S-DGM/OPE), “*(the bank) is not only one of the earliest entrants in the China market, but also a bank which expanded quickly. We are expanding our branches through upgrading the representative offices in different cities as soon as possible.*” This was addressed further by the same manager: “*Even during the financial crisis in Asia when many investors hesitated about making investment in China, (the bank) didn’t stop implementing the branching strategy – the bank keeps applying to open branches. The manager concluded that, “(The bank) is quite a successful bank in Mainland China with its fast and stable expansion.”*

In Case 8, the bank attempts to locate different places with an increased number of branches and accelerated expansion. As the marketing manager (8.1/S-MAR) described, “*We have six branches in China. They are located in Beijing, Tianjin, Chengdu, Shanghai, Guangzhou and Shenzhen cities. We look forward to expanding more by opening one or two more branches every year and with more sub-branches around our consumer business.*”

In Case 9, the bank expands with large geographical scope wherever it is possible, with aggressive expansion of the branch scale and a fast speed of development. As the operations manager (9.1/S-OPE) noted, “*We try to open as many branches as we can and as we are allowed to because basically we cannot decide that we are going to open a branch somewhere and just do it. We have to get approval and that approval takes time and often gets declined. So we try to open as many branches as we can.*”

In Case 10, the bank expands wherever possible with a larger scale of branch network. It has followed an aggressive and stable development principle since its entry into the market. As the general manager (10.2/S-GM) explained, “*We are keen on developing our branch network across China. We now have a dozen operating branches and we*

will continue the expansion in China.” The marketing manager (10.1/S-MAR) explained, *“The market has just opened so fast that (the bank) cannot tolerate the current status to have only more than ten branches.”*

Decision Status 2 (Cases 4 and 5)

In Case 4, to co-locate with their customer is the principle guiding the decisions regarding the scope, scale and speed of branching. As the deputy general manager (4.1/S-DGM) noted, *“... the basic approach is to open our own outlet. So far we have five branches, three representative offices. For us this is not enough.”* The bank keeps a close eye on the movement of their customers. As expressed by the same manager, *“In the area which we have not yet covered, we have seen there are Japanese enterprises already established.”* Therefore, the main concern is to locate enough branches for the customers.

In Case 5, the bank takes a similar approach to Case 4. The marketing manager (5.1/M-MAR) explained, *“... We actually follow a unique branching policy. So far we only have five branches in Mainland China. ...We try to dominate those areas and to have a very profitable business. Historically this was the branching strategy in terms of location. But sooner or later, we may open a Beijing Branch.”* In this case, Beijing is not viewed as having the same good business opportunities as in some other cities. The location of the branch in Beijing is expected to provide the bank with greater convenience in obtaining regulatory information.

Decision Status 3 (Cases 3 and 7)

In Case 3, the bank manager did not give a direct response to the branching strategies. But according to the general manager (3.2/S-GM), the bank has not expanded in an aggressive way. Presumably like most other foreign banks, its expansion became less conservative only in the last five years. As he explained *“... in fact, since the entry of China into the WTO, banks have started to diversify their offer and to put this market in the front through expanding franchises...”*

In Case 7, the bank chooses the location wherever a branch is necessary and has the scale to meet the demand. As noted by the operations manager (7.1/S-OPE), *"We believe three branches are currently capable of covering the surrounding area for business with reasonable profit. Therefore, it is unlikely the bank will expand branches very aggressively."* The speed expansion is not aggressive. As the marketing manager (7.2/S-MAR) expressed, *"(the bank) has set up a group of branches, but is also ambitious to penetrate more but not as fast as (other banks). Still you can see the inspiration."*

Decision Status 4 (Cases 2 and 6)

In Case 2, the bank limits the number of branches to two. As the general manager (2.1/S-GM) noted, *"... it is nice (for the parent bank) to have us because the option of doing something with the branch in two, three or four years is open."* The marketing manager also commented: (2.4/S-MAR), *"For us to put into China ten or twenty branches under our strategy wouldn't make sense."* Rather than choosing a fast and large scope of branch expansion, the bank wants to close down a branch if it does not make profit. As explained by the credit manager (2.3/M-CRE), *"I do not expect that the German client base will become big down there. It will not make sense to open another branch. We are actually closing a branch ..."*

In Case 6, the bank maintains the necessary branch scale and limits the branches to the key cities. The regional manager (6.1/S-REG) explained *"By organic growth we support our North American client base, which is now all over China. And at the same time we have a China that is deregulating, where geographic barriers are becoming less and less important...if you have many clients all over China it may make a sense to open more branches."* In terms of the geographical location, the same manager explained, *"We find those three cities cover pretty much the concentration of those customers."*

Evidence as summarised by Table 7.13 Equity Investment Decisions

Decision Status 1 (Cases 2 and 6)

In Case 2, the bank does not make equity investment in the local commercial banks. Managers indicated that they understood the benefits of making equity investment in the

local commercial bank but they felt it was not the direction for the bank. As the credit manager (2.3/M-CRE) admitted, *"It makes sense to buy a share in a good Chinese bank because that is the fastest way to gain market share. ... We played it a different way.... But in our case, it is more in life insurance, non-life insurance and fund management than investment in the [local partner] ... You are right, when we do strategic investment we are doing it in the financial sector. It is not necessarily in the banking sector."*

In Case 6, rather than making equity investment in the local commercial banks, the bank has investment in fund management. According to the regional manager (6.1/S-REG), *"...Only if you try to compete here in China with famous global banks and local Chinese banks, is it worth making equity investment."* In this case, the same manager said, *"To me I can't feel comfortable that this is the way to spend our capital and our shareholder's funds. ... (The bank) needs to stick more strongly to its strategy and its core competency."*

Decision Status 2 (Cases 1, 4 and 5)

In Case 1, the bank has made efforts to identify equity investment opportunities. The deputy general manager (1.8/S-DGM/MAR) explained, *"The main purpose of such an entry mode is to share the customer base."* Another deputy general manager (1.5/S-DGM) highlighted that, *"Since the Chinese market has huge potential and a promising market, we expect profitability based on an enlarged network in China to sustain profitability in the long run."* The bank is clear which kind of partner it is looking for. As one deputy general manager (1.3/S-DGM/OPE) stated, *"We do have our advantages, but it depends what kind of partners we plan to target. Our expected partner is a smaller-sized joint stock commercial bank in China..."*

In Case 4, the bank is considering making equity investment with a gradual approach. As explained by the deputy general manager (4.1/S-DGM), *"You can see we undergo many stages to cooperate with the local Chinese banks. The final stage could be equity investment."* The benefit for making equity investment is clear. The same manager noted, *"For equity investment, each bank has its own purpose. If you are targeting the retail banking market, the main purpose of purchasing a share of the local Chinese bank*

is to share their branch network.” A particular reason was mentioned by the marketing manager (4.3/M-MAR), “We keep searching for opportunities to make equity investment in a local Chinese bank. But given the political issue, it is relatively more difficult for a Japanese bank to become a shareholder of a Chinese local bank.”

In Case 5, the decision to make equity investment hasn't been made. As noted by the marketing manager (5.1/S/MAR), *“I do not know about the future, whether or not we are going to take the policy of buying the local bank or acquiring some departments over there. The reason for not doing so is because it is tough to exert due diligence.”* The benefit from the investment lies in the network and expansion of business scope. The same manager concluded, *“Foreign banks have only a few branch networks. They cannot do personal banking with such a small network. So the reason for their investment in local banks is for the future. After all the business is opened for foreign banks, they can be well-prepared to do whole range of banking business, especially personal banking.”*

Decision Status 3 (Cases 3, 7, 8, 9 and 10)

In Case 3, the bank made equity investment in a local city commercial bank. Sharing the network is potentially the purpose of the investment, as mentioned by the general manager (3.2/S-GM), *“I cannot imagine any foreign bank will be able compete one day with local Chinese banks. We should not forget the market is huge and (a local bank) may have some 20,000 branches. How can a foreign bank compete with such a ‘monster’? To expand the business scope is the benefit expected from equity investment. The same general manager addressed, “...the market is so huge and there are lots of products that only the local Chinese banks can offer.” The investment provides “a better understanding for (the bank) of the retail banking market”.*

In Case 7, the bank made equity investment in a local joint stock commercial bank. The benefits from the investment are expected. As the operations manager (7.1/S-OPE) noted, *“The main purpose is to make use of the network and information of (the partner) to promote our private banking products.”* The marketing manager (7.2/S-MAR) addressed the strategic importance of equity investment, *“(the) organic growth is too*

slow for any foreign bank in China.” The same manager explained why a joint stock commercial bank, a smaller-sized local Chinese bank has been chosen as the partner and he said, “It is our belief that China will allow foreign banks to acquire a controlling stake in the future but only to start with smaller banks.”

In Case 8, the bank made equity investment in a local stock commercial bank. The investment purpose is clearly set up from the very beginning of the partnership, which focuses on the expansion of business scope. As the marketing manager (8.1/S-MAR) explained, *“We have defined the scope of business we can do jointly together with our partner. When we did the investment, it was meant to focus on cooperation in the credit card business.”*

In Case 9, the bank has equity investment in a newly-established city commercial bank. The investment aims to share the branch network of the local partner. As the credit manager (9.4/M-CRE) explained, *“Many foreign banks choose the way to buy the stake of local banks because it is the quickest way to develop the network. If you develop the huge network by yourself, the cost is high and it is not easy to reach the size or volume of network the local Chinese banks have developed.”*

In Case 10, the bank has made equity investment in a state-owned commercial bank. The purpose of the investment is noted by the marketing manager (10.1/S-MAR), *“...to have a larger market share only by organic growth is impossible. The only thing you can do is to grow organically on the one hand, and on the other acquire a local strategic partner”*. The investment is part of the whole investment in China. As noted by the general manager (10.2/S-GM), *“the bank not only provides banking services to the client but also investment and insurance. So if you have a stakeholder in that particular industry, they will be given a lot of synergy when you can provide seamless or one-stop services. That is the picture. (The bank) is still committed to development from this particular perspective.”*

Appendix D-3 Evidence of Different Management Control Decisions

Evidence as summarised by Table 7.16 Structural Control – Integration with the Parent Bank

Decision Status 1 (Cases 2 and 6)

In Case 2, the country operation officer (2.2/S-COO) explained, *“The structural design of the branch is product and service-based. It is product-based such that all trading and corporate financing advice products are handled by the invest bank division and the activities are managed by the global head of the respective business unit. And for the supporting services, it is also like this.”* As noted by the marketing manager (2.4/S-MAR), *“The branches here in China are linked to the units in the head office. We have to structure our branches in line with the structure of the whole group.”*

In Case 6, the regional manager explained (6.1/S-REG), *“People like myself or the branch manager in Beijing or Guangzhou have a geographic dimension, then we have a line business such as trade finance, capital market, FX, corporate lending, etc.”* The general manager (6.4/S-GM) said, *“I think the way to do it better is to have a very efficient line business....”*

Decision Status 2 (Cases 4 and 5)

In Case 4, the deputy general manager (4.1/S-DGM) noted, *“For corporate banking we normally do not need a front office because we structure our operation by customers. We have a Japanese enterprise department, and non-Japanese enterprises. This is the main and also simple way to organize.”*

In Case 5, the marketing manager (5.1/S-MAR) explained, *“Basically, marketing teams are customer-oriented. We have a special team for the Japanese clients; we have a special team for non-Japanese clients. We have each branch in charge of each territory.”* The deputy general manager explained (5.2/S-DGM/OPE), *“When products are limited to China, the function-oriented design is more appropriate.”*

Decision Status 3 (Cases 3 and 7)

In Case 3, product and function are important to integrate with the parent bank after the structure design is influenced by the merger and acquisition. The marketing manager (3.1/S-MAR) said, *“After the merger, we are more in line with the pole style, which means the organizational design follows the products and functionality.”*

In Case 7, the operations manager (7.1/S-OPE) explained, *“When I worked in the Japanese bank, the horizontal management was more dominant. The branch manager was quite powerful... But in a European bank, the vertical management is dominant, with cross-selling and cross-support between the vertical lines. This is what we called matrix.”*

Decision Status 4 (Cases 1 and 9)

In Case 1, the deputy general manager (1.4/S-DGM/MAR) described it as follows, *“Our bank structure is designed more by geographical area. For example, in the Beijing area, the General Manager of the branch is the main responsible person. The General Manager reports to the manager of the China Division.”* The same manager explained that, *“The matrix design according to the business line may work better. But in China, country risk can drive lots of problems which require quicker and more centralized decisions.”*

In Case 9, the operations manager (9.3/S-OPE) explained, *“The organization structure is currently following the matrix design, which has two dimensions. One is the geographical dimension and the other one is the function dimension. From my perspective, this bank is dominantly functionally structured.”* The focus on the function element is confirmed by the credit manager (9.4/M-CRE), *“The structure is always moving between geographical basis and function basis. But in recent years, we are more focusing on the functional basis. The balance of these two dimensions depends on the business volume in each location.”*

Decision Status 5 (Cases 8 and 10)

In Case 8, the marketing manager (8.1/S-MAR) explained, *“Basically you can see the*

concept follows geographic, products, customer groups. Geographic concept means global, Asia, and China. Products can be divided into transaction services product, treasury products, fees-income products, and capital products. So you can divide it to a level where we manage it. Then you have the customer-based concept including large corporate, multinationals, financial institutions, small-medium-sized enterprises. Each business unit will have at least a three-dimensional matrix, one geographic, one product and one customer group.”

In Case 10, the marketing manager (10.1/S-MAR) explained, “(the Bank) is also picking up the matrix management way. My department is more in charge of product support. We are product-based specializing in trade service and we are supporting all different customer groups. The customer groups include multinational companies, the local companies, and the small and medium company. These customer groups are managed by different groups by functions. ...But product-wise we have treasury, cash management, and consumer services to support all kinds of customers. So this is a kind of matrix.”

Evidence as summarised by Table 7.17 Structural Control – Responsiveness to the Local Market

Decision Status 1 (Cases 2 and 6)

In Case 2, the bank does not have a China division of the parent bank. It has no intention of setting up a local head office. The country operation officer (2.2/S-COO) explained, “The idea of the head office in China is not really to have big resources in China in a big operation in most cases, but rather to have a sales force here, to only do locally what it has to do locally.” The same manager said. “(Banks) have to decide whether they really want to expand here which could be quite expensive or they try to get along with the resources they have now and try to use them more efficiently.”

In Case 6, the bank has no intention of setting up a local head office. The main reason is because the size of the local business is not big enough. As the Regional manager (6.1/S-REG) explained, “Regarding a head office in China, I think if you have more than five branches in China, you need to have the head office located in China.” The

marketing manager raised the same point (6.2/M-MAR), *"The balance suited to the horizontal integration is determined by the size of the bank, which is the key factor to be considered."*

Decision Status 2 (Cases 1, 3, 4, 5 and 7)

In Case 1, the decision of setting up a local head office is considered. As the deputy general manager (1.3/S-DGM/OPE) explained, *"Several years ago, we thought about moving the China Division to Mainland China... the plan was not implemented because of the monitoring and cost concerns. But from the long-term point of view, the headquarters (the current China Division) should move their main functions to Shanghai. By that time, we need to localize the people in Shanghai to take over the role of the China Division."*

In Case 3, the bank has recognised the benefits if the local head office is set up in China. As the marketing manager (3.1/S-MAR) noted, *"...it will increase efficiency by moving the head office from Singapore to Hong Kong, or the one in Hong Kong to China. The decisions made in Paris, or Singapore, or in Hong Kong would be impacted by the distance, or the nationality of the people involved. It is always those who are located in the market who know China's business better."*

In Case 4, the bank is considering moving its head office to the local market. As the deputy general manager (4.1/S-DGM) explained, *"We didn't move the head office to the local market because normally setting up headquarters benefits the large scale businesses. Of course, we are also considering moving the China Division from home to China, which will be more convenient."*

In Case 5, having a local head office is considered necessary because the China market is different from other Asian markets. As the marketing manager explained, *"Although all this area is called Asian-Pacific ... China is a very independent and unique area. That is why we need a special team for China and to separate China from the other Asian regions."* The deputy general manager (5.2/S-DGM/OPE) explained, *"The parent bank is actually making a profit in China and it plans to expand further. For example, it*

decided to set up China Head Office formally in Shanghai.”

In Case 7, the size of the local business is crucial? in the decision to set up a head office. The operations manager (7.1/S-OPE) explained, *“Another way is to create new positions for each country market called the Chief Country Officer (CCO) or Chief Operation Officer (COO) to coordinate decisions across the different vertical lines. (The banks) also have a CCO and COO, but unlike (other banks) that established a China head office, we have fewer branches, so there is no China head office.”*

Decision Status 3 (Cases 8, 9 and 10)

In Case 8, the marketing manager (8.1/S-MAR) explained, *“We moved our headquarters in the mid-1990s from Hong Kong to China. We were the first foreign bank to move their headquarters from the area outside Mainland China to Mainland China. For many reasons, we feel that our China headquarters needs to be in Mainland China. And then we further expanded the head office into the CEO structure two years ago. The CEO structure also follows the matrix structure as described but one site at the top can make most of the decisions.”*

In Case 9, the general manager (9.1/S-GM) explained, *“We set up the head office around 1998 or 1999. By its establishment we really want to show our commitment in China. We also need to have specific group people to sit there to feel the market, smell the atmosphere so that we can make wise decisions. You have some other cases where banks do not have people sitting in China; rather they may sit in Hong Kong or Singapore. But these people will never have the time or the patience to understand what the China market is. This would be not good for our bank because we recognise that China is such an important market.”*

In Case 10, the local head office management has been established in a comprehensive way. As the general manager (10.2/S-GM) explained, *“For the corporate banking, we have one exclusive head office in Shanghai. The Shanghai corporate banking business is functionally run by the function department of the China head office.”* Such a control structure enhances responsiveness to the local branch. The same manager explained,

"We believe firmly in the principle that the branch manager, as well as the country CEO, takes the full responsibility for the particular regions and branches."

Evidence as summarised by Table 7.18 Authority Control – Integration and Responsiveness

Decision Status 1 (Cases 2 and 6)

In Case 2, the credit authority is limited to the local branch. As the general management (2.1/S-GM) explained, *"We rely on our colleagues in Germany to make credit assessment and approval. We rely on the communication between the local branch and Dresdner bank for each individual lending decision and individual customer."*

In Case 6, the authority for credit approval is centralised in the parent bank and the problems are exposed. As the regional manager (6.1/S-REG) explained, *"For corporate lending, I have no rights to sign...I don't think the authority is problem. I might feel there is a lack of understanding of true credit risk in China."* As the marketing manager (6.2/M-MAR) explained, *"... the credit people from the head office should come to China. You can imagine that if they haven't come to the actual market, their mindset could be different. In fact, we lost many good local opportunities because the policy is not supporting us to develop in that direction."*

Decision Status 2 (Cases 1, 3, 4 and 5)

In Case 1, credit policy is made by the parent bank and the local bank participates in part of the assessment in the whole credit approval process. As the credit manager (1.1/M-CRE) noted, *"In credit assessment, I do not have the power to make the final decision. But if I do not think I can sign the proposal, the proposal will not be submitted."* Another credit manager (1.7/M-CRE) explained, *"The most important support from the parent bank is the credit policy. We will make the assessment according to the policy. We do not need to elaborate but only to follow the guidelines."*

In Case 3, the marketing manager (3.1/S-MAR) said, *"You have to be very clear about the definition of authority. By geographical limit, my authority is limited to the Beijing area. If one business should belong to the Shanghai area, then I need to transfer to*

Shanghai. By credit volume, the authority is very limited. I would say even my boss here has very limited credit volume, say RMB 100-200 million."

In Case 4, the deputy general manager (4.1/S-DGM) pointed out, "I feel the credit authority is too limited and not sufficient as the business develops. For each credit application, it is very complex because we have to get the approval from the credit department in the China Division, which is normally not necessary in my personal view." The approval is based in the parent bank, as the operations manager (4.2/M-OPE) noted, "Most of the cases will be approved at home. Of course the branch manager has a certain range of authority. But the credit authority is very limited."

In Case 5, the marketing manager (5.1/M-MAR) explained, "I think the General Manager should have more power. Sometimes it is time consuming to go to Tokyo every time. If the risk is very small, maybe we can decide by ourselves. But according to the credit policy and credit procedure, in many cases we have to go through Head Office for the purpose of control. Actually Japanese banks have almost the same policy and procedure."

Decision Status 3 (Cases 7, 8, 9 and 10)

In Case 7, the country operation officer (7.3/S-COO) described how, "[We are] not like other foreign banks having credit people actually sitting in the regional office. We have the credit people here. I think it is important from different angles that you need to have expertise here. But sometimes I know banks have some Chinese individuals based in Hong Kong or Singapore to look after the credit assessment. It is also durable to a certain extent. But if you really want to do local business you have got to be here."

In Case 8, the marketing manager (8.1/S-MAR) explained, "In fact different policies are formulated by experts in different areas. We call these experts the owners of the policies. At the branch, we do not formulate the policy. Our job is to make sure the policy is implemented. All the policy is made at the global level." The local branch in this case has a certain responsibility to implement the credit policy with limited approval authority, although this point is not directly made by the manager.

In Case 9, the credit manager (9.1/S-CRE) noted, *“Most of the foreign banks, maybe they do not have the credit function or department sitting in China; they may still centralize the decision in the head office. The good side of having a credit function here is in regard to whether your business volume is big enough to have function here. If your business volume hasn’t reached a certain level, it is not just fine to have people here. If you do not have people work here on credit assessment, it is not possible for people to understand the market in China.”*

In Case 10, the general manager (10.2/S-GM) explained, *“It depends on the actual amount of credit, the branch manager can approve some, and the country manager can approve some. ... the majority of the case will be approved onshore. I know most of the foreign banks will send the proposal overseas. Again that is the demonstration of ability of (the bank) in China. You need to get credit approval in China so that people will understand what the real situation is here so that their credit analysis can be more to the point.”*

Appendix D-4 Evidence of Different Marketing Orientation Decisions

Evidence as summarised by Table 7.24 Identifying the New Local Clients and Mitigating the Risks

In Case 1, the deputy general manager (1.8/S-DGM/MAR) explained, *"We only target the 1st tier firms. The 1st tier companies are those well known by the industry, by other banks and by the auditing firms."* However the problem of targeting the 1st tier enterprise is the low profitability. The same manager explained, *"(Big firms) have many banks offering services to them. Usually big firms are demanding and have strong learning ability. We may not benefit from providing services to them. It might be helpful for establishing our image if we gained big firms, but it might not be profitable."*

In Case 2, targeting the local Chinese corporate is considered risky. As the general manager (2.1/S-GM) noted, *"We have not many local corporate customers except the Chinese banks. The risk of lending money to Chinese companies is higher than lending money to German companies."* The marketing manager (2.4/S-MAR) explained, *"But when you deal with the triple 'A' companies you have to watch your margin...when dealing with small companies, yes, you have to bear a bit higher risk..."* The same manager said, *"So far we do not have any local Chinese companies. There are two such companies, which are German-related. They are registered in China but invest in Germany."*

In Case 3, although corporate banking is one of the main businesses of the bank in China, it is challenging for the bank to identify the target. The general manager (3.2/S-GM) noted, *"For pure local Chinese enterprises, you have to spend lots of time on due diligence. I do not worry about the top names, for the top names we are ok. For the 2nd tier names, especially the private-owned companies, you need lots of due diligence because financials are not transparent, and even if they were transparent, financials are so difficult to assess."* The marketing manager (3.1/S-MAR) added, *"Chinese corporates start making investments abroad, for some cross-border service. We may provide some value-added information."*

In terms of challenges, the marketing manager (3.1/S-MAR) noted, *"Chinese local*

corporate are served by many Chinese local banks. A foreign bank can offer them far less than Chinese local banks can offer them.” The same manager commented, “... If I want to gain Chinese corporate, I must have competitive conditions. Although we have cases that certain Chinese corporates preferred our service to the local banks, we know that success relies on the relationship really.”

In Case 4, the bank selects the specific type of local Chinese corporate. As the operations manager (4.2/M-OPE) explained, *“No matter how competition changes, in the long term, we target the good names. We won’t target the SMEs because we don’t understand them and we have no intention of understanding them.”* Another group of customers are those Chinese local enterprises investing overseas. The deputy general manager (4.1/S-DGM) noted, *“We have a large network in the overseas market, therefore, we can benefit from that development trend in this respect. We can provide our services to this group of customers.”*

In Case 5, the bank also targets the very good names. As the credit manager (5.3/M-CRE) noted, *“For the moment, we are focusing on those with good creditability, 100% state-owned enterprises and those famous enterprises. We will give them first consideration. Other than those well-known Chinese enterprises, we do not feel safe to offer credit; maybe we will do it in the future. We need to do it slowly and accumulate experience.”* The marketing manager (5.1/M-MAR) explained, *“The problem is that each local company is already too strong, I mean the 1st tier companies, although we do business with them, the margin is very low relative to the risk. So we target those excellent companies in the 2nd or 3rd tier.”*

In Case 6, targeting any kind of local corporate is considered risky. As the marketing manager (6.2/M-MAR) explained, *“Talking about developing the local Chinese corporate, I should say it is a very tough route. Nobody would like to do the SMEs of China.... For larger-sized local Chinese enterprises, it could be more difficult. First of all, we do not have an advantage in the RMB business compared with the local banks. Second, when we propose large-sized enterprises, the financial data does not look good enough to get approval from our head office.”*

In Case 7, lending to the local corporate and only to the 1st tier corporate is for setting up the relationship for cross-selling opportunities. The chief country officer (7.3/S-COO) explained, *“I don’t think foreign banks are particularly good at providing credit to the local corporate ... Foreign banks may start businesses from credit lending in order to set up business relationship first and then to introduce more products to them.”*

The operation manager (7.1/S-OPE) explained further, *“Every local Chinese enterprise has its own uncertainties. Sometimes, it is very difficult to understand the shareholders’ background and relationship. It is not easy to know the final decision maker or the real guarantor. This is why at the initial stage, the so-called LLCs (large local corporates), are targeted.”*

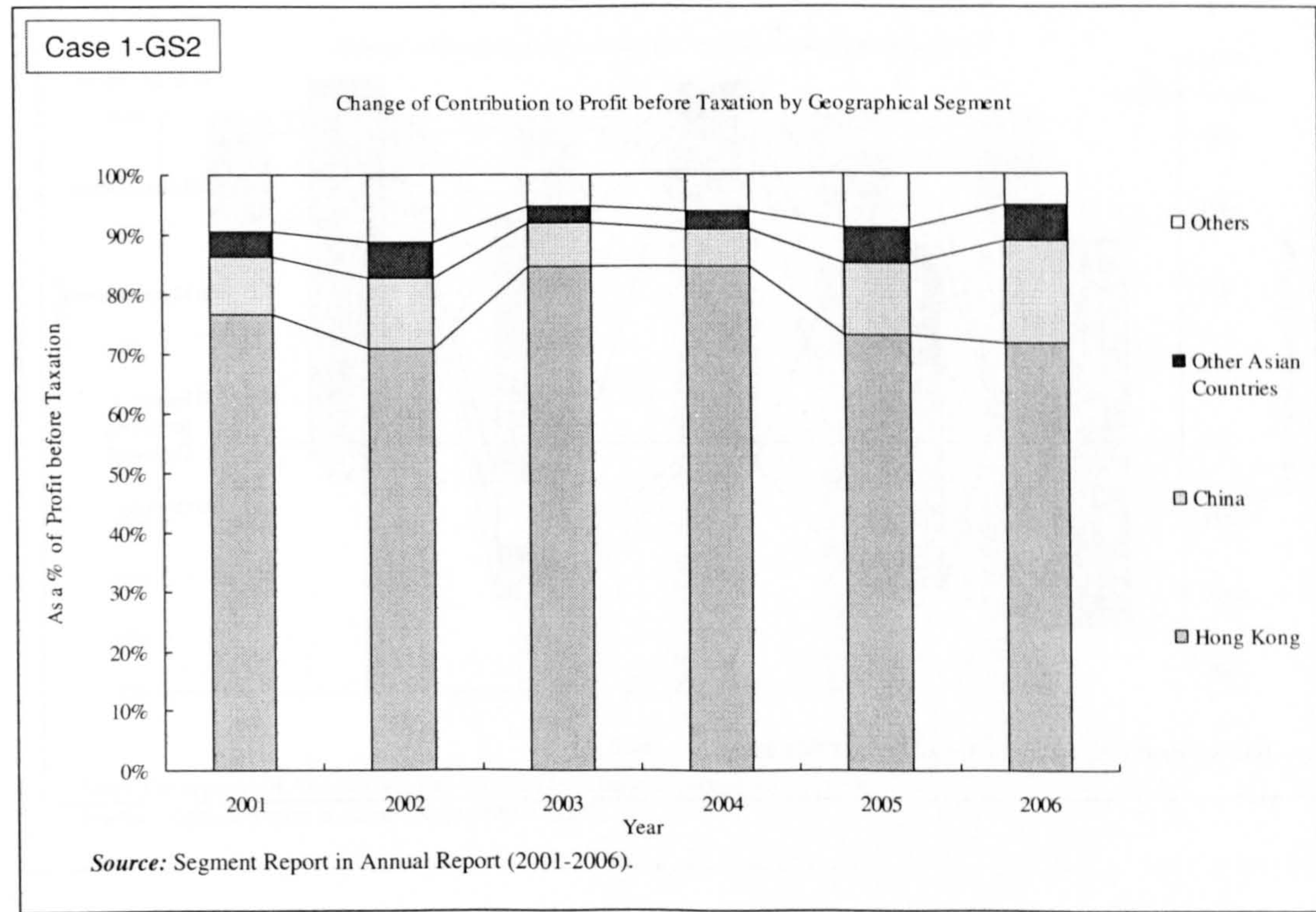
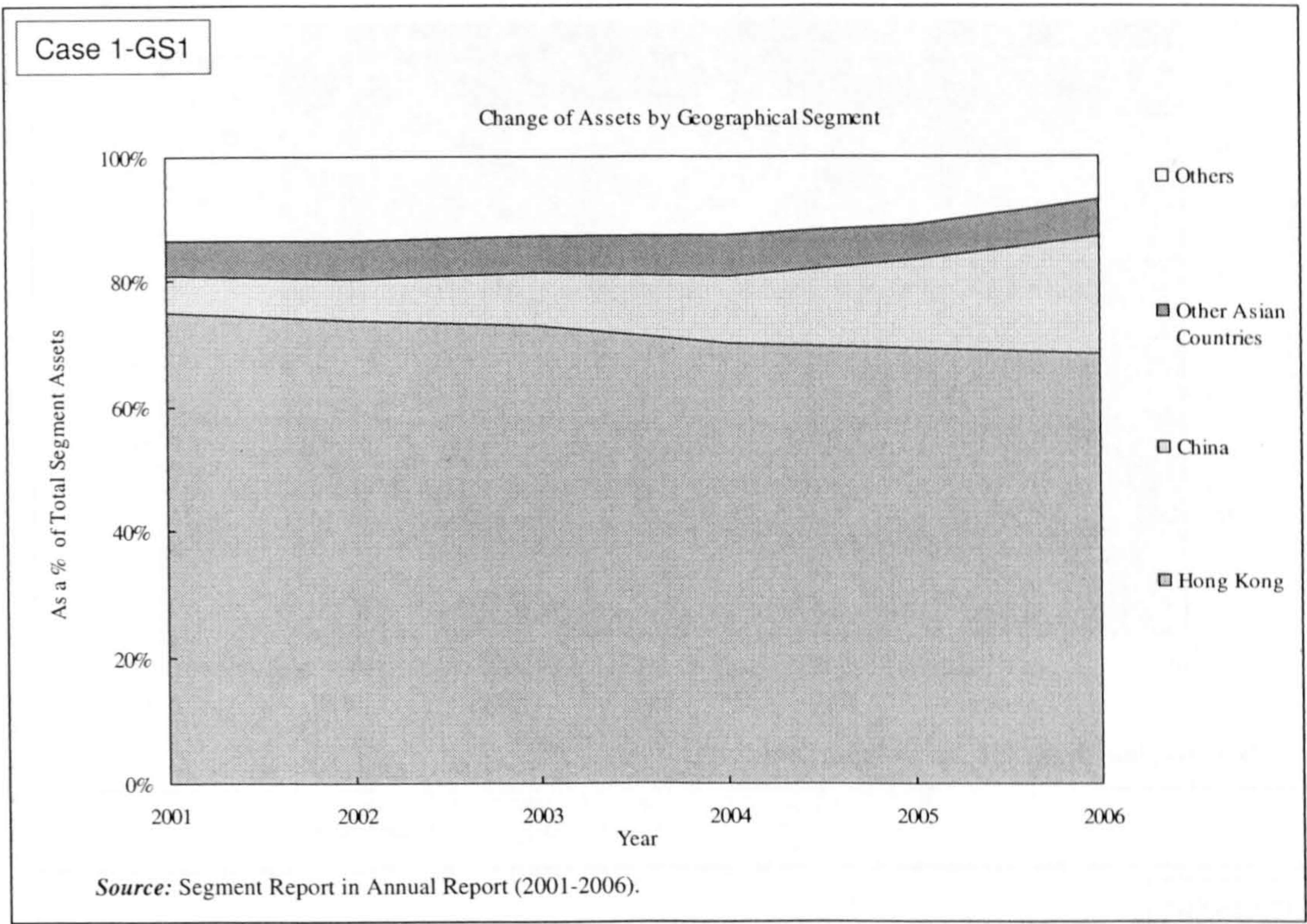
In Case 8, the bank did not judge risk by the ownership of the local corporate. As the marketing manager (8.1/S-MAR) noted, *“... But it is not much more difficult in terms of process dealing with the local corporate. It is just that you have to go through all this analysis. If it is within our acceptable risk criteria, it is easy. Of course if it is marginal, we never process it.”*

In Case 9, the credit manager (9.4/M-CRE) commented, *“More or less like the other foreign banks, we target the best 1st tier local Chinese companies and the private Chinese companies could be the last to be considered. We may target the 1st tier because usually these companies enjoy government support to minimise the risk and also they are the big groups. We also target the listed companies because their finances are more transparent.”* The marketing manager (9.2/S-MAR) indicated that, *“The biggest risk for doing business with the purely local corporate is risk assessment. There is no secret. People really need to understand and get a good view of the creditworthiness of the local corporate.”*

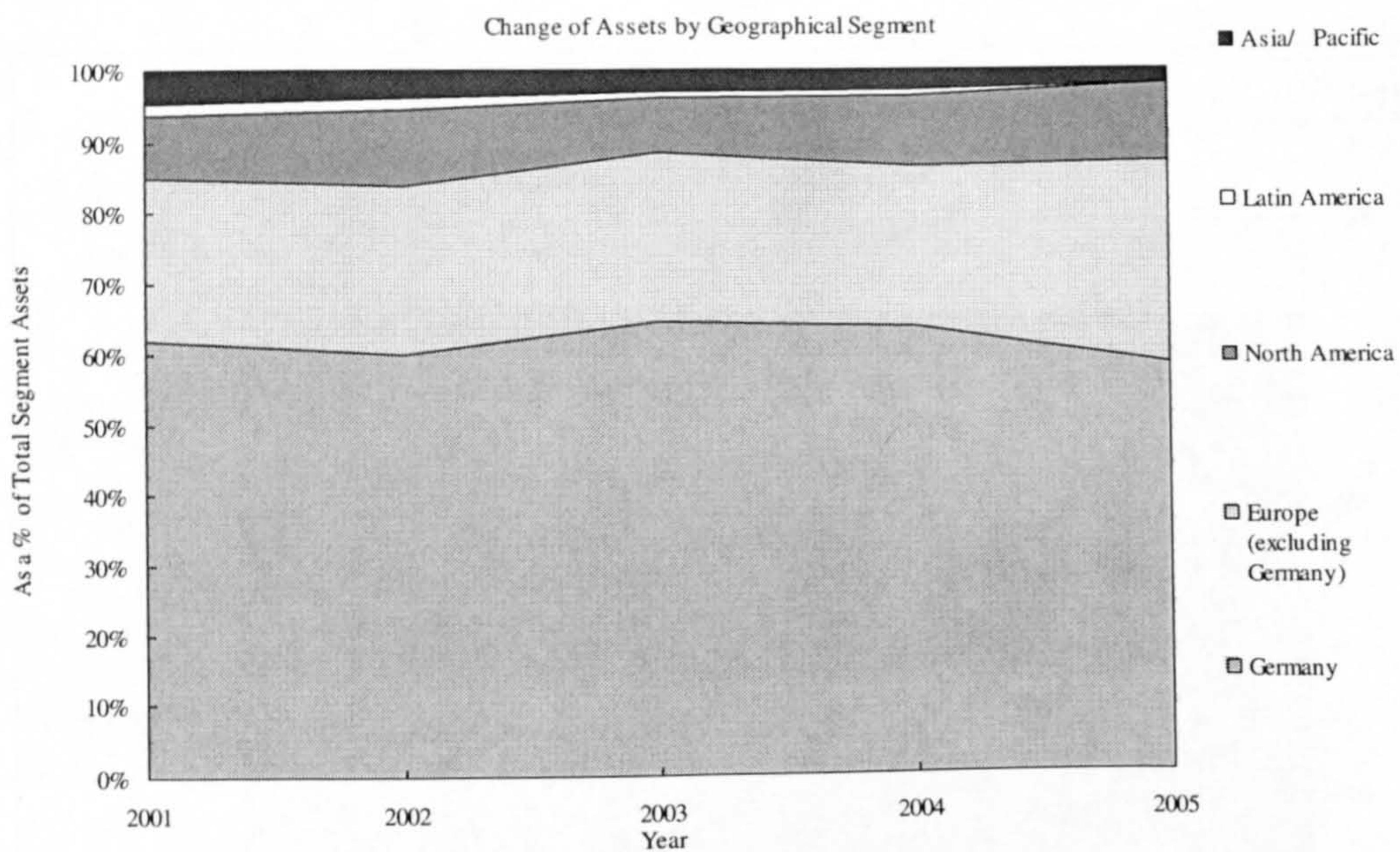
In Case 10, the risk for deals with the local Chinese bank is considered. The marketing manager (10.1/S-MAR) noted, *“It could be challenging to lend to local Chinese enterprises. For (the bank), it is relatively easy because historically we have done trade finance for many years. For trade finance clients are actually those SOEs. We have lots*

of business experience no matter whether it is for large or small local enterprises... One of our potential businesses is to serve the Chinese clients overseas.” The general manager (10.2/S-GM) highlighted the risks side, “If you are going to operate in China you definitely need to bank with those local companies. You cannot compete with the local Chinese banks getting these companies. On the other hand, a lot of those companies have problems in terms of information, accounts, and the legal system.”

Appendix E-1 Geographical Segment Analysis (Cases 1-10)

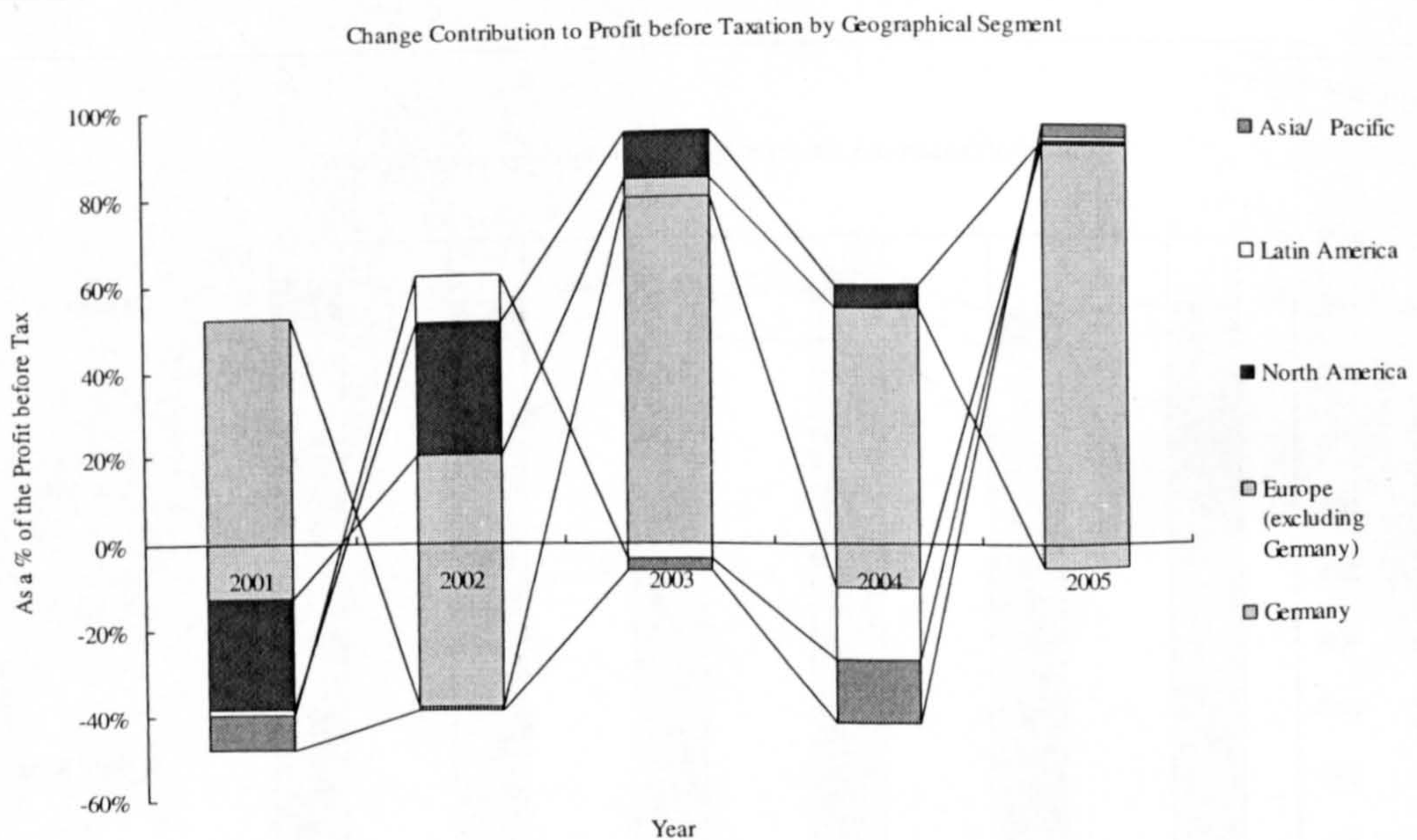


Case 2-GS1



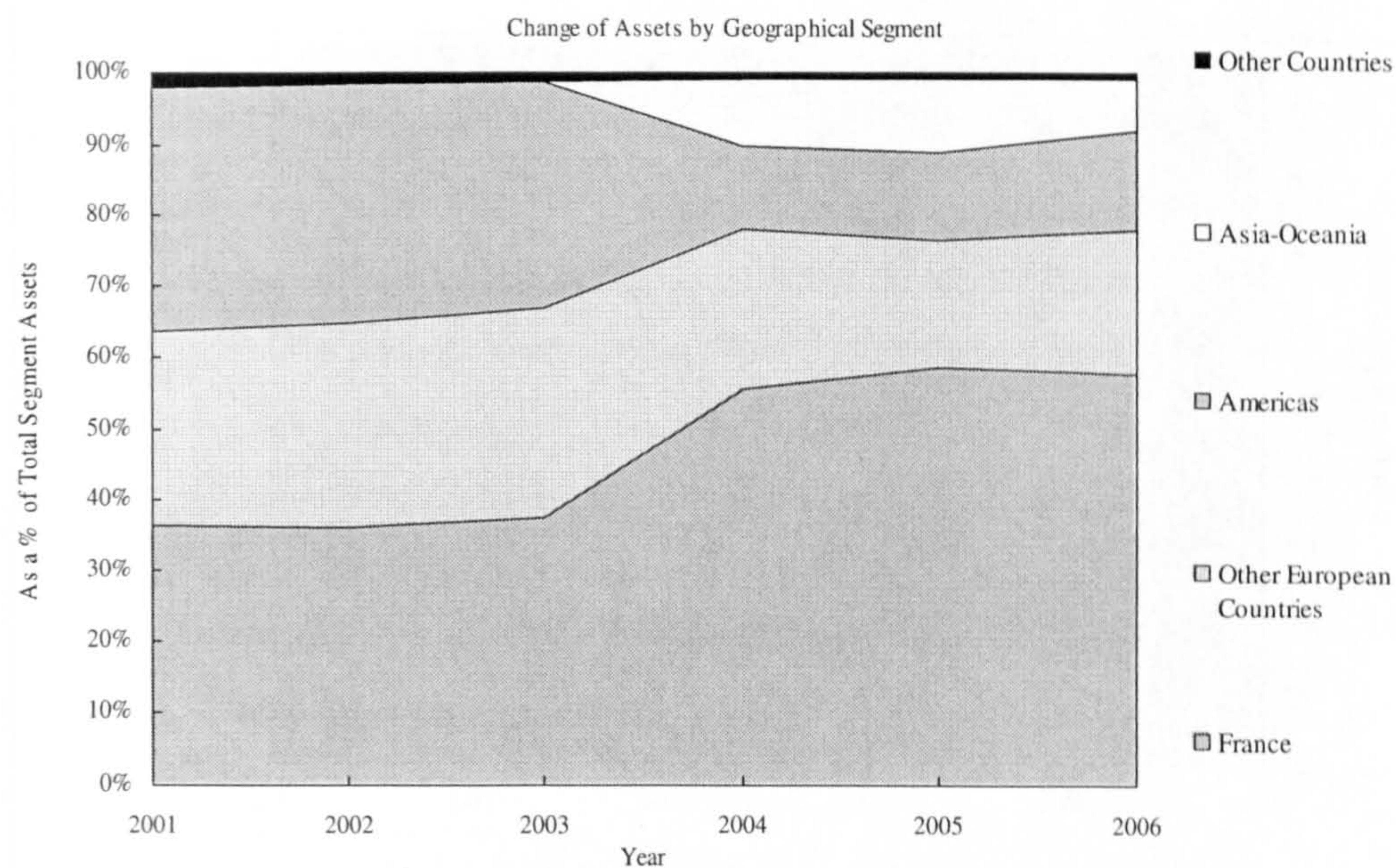
Source: Segment Reporting in Annual Report (2001-2005).

Case 2-GS2



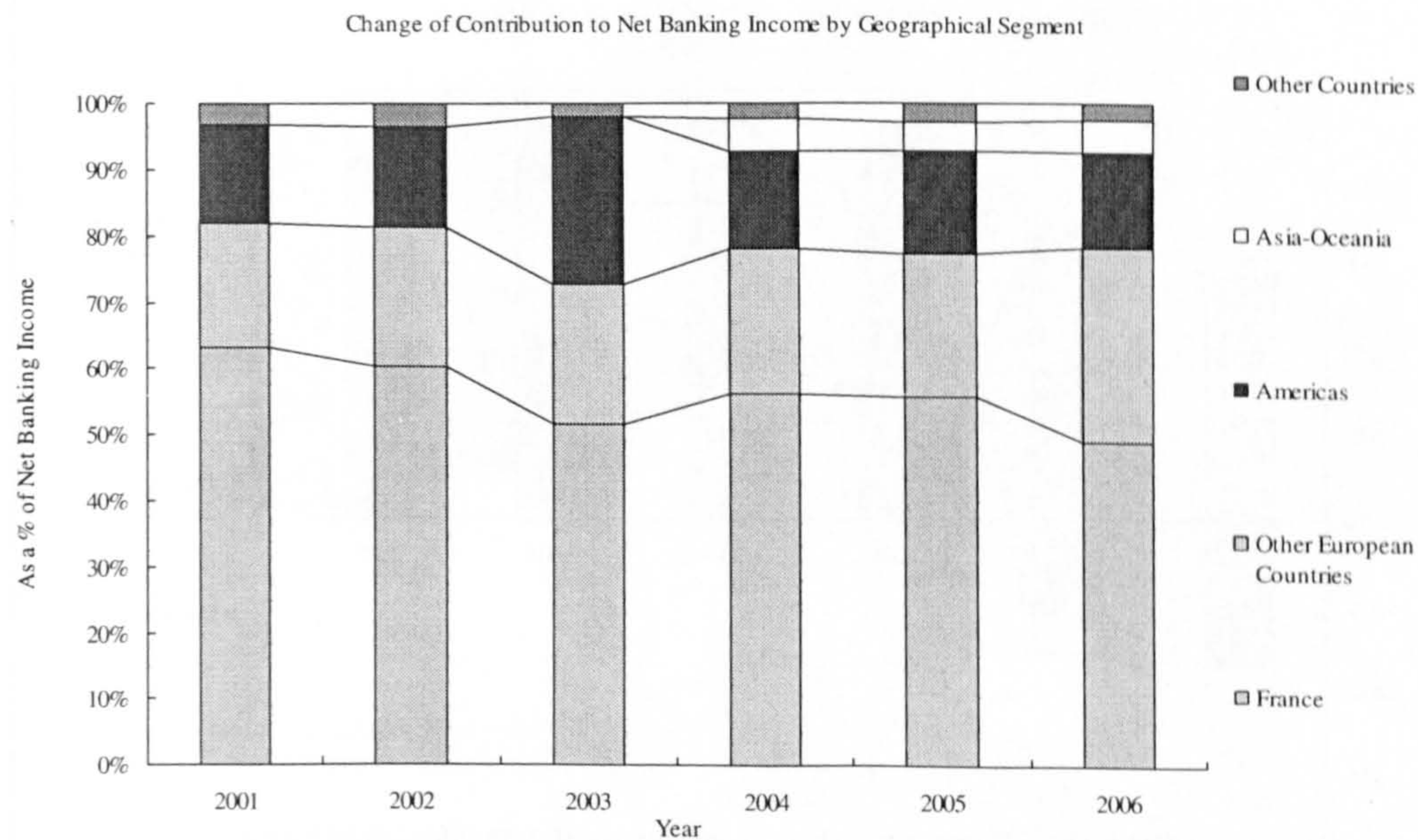
Source: Segment Reporting in Annual Report (2001-2005).

Case 3-GS1



Note: The segment of America and Asia-Oceania have been two segments since 2003.
Source: Segment Report in Annual Report (2001-2006).

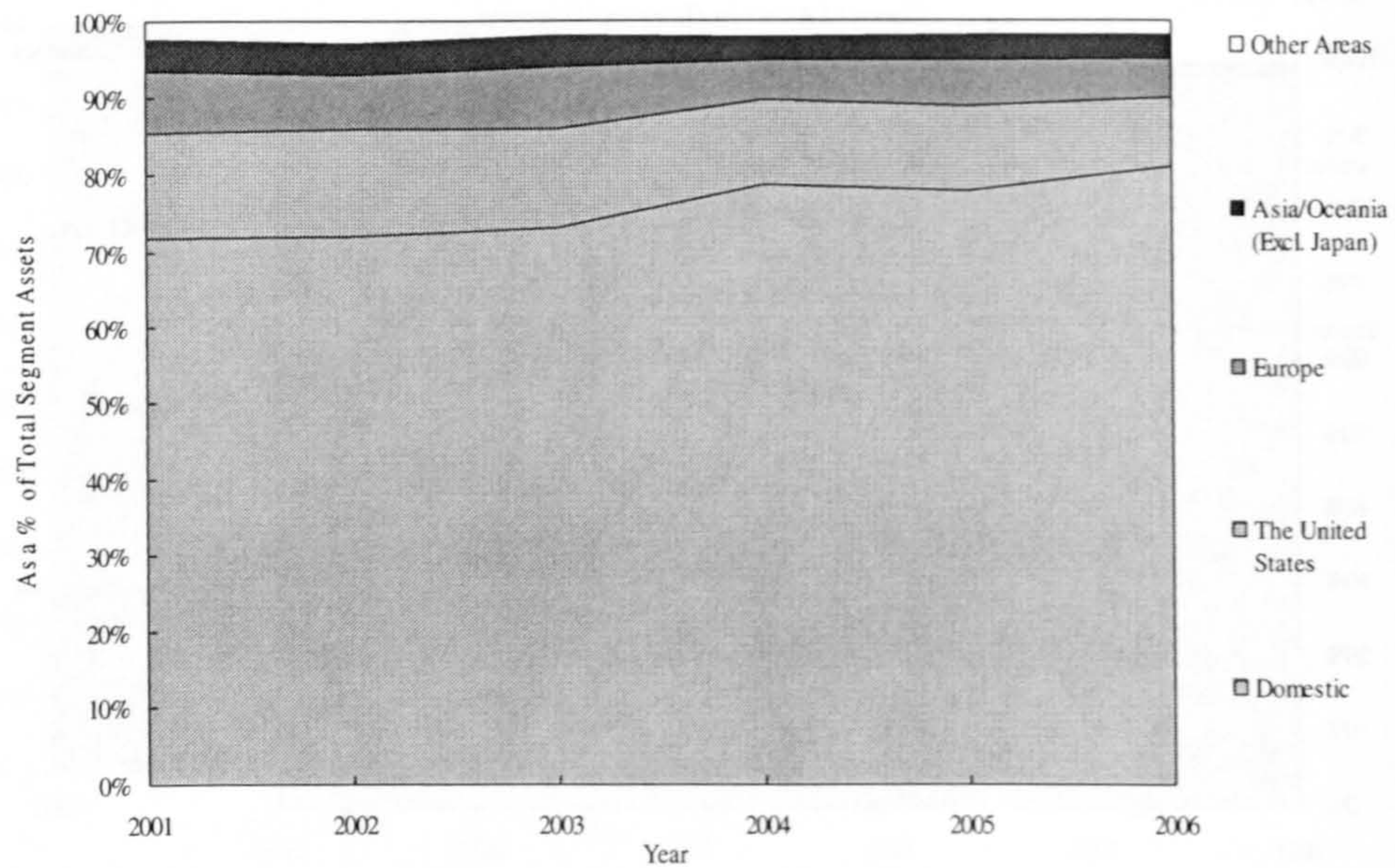
Case 3-GS2



Note: The segment of America and Asia-Oceania have been two segments since 2003.
Source: Segment Report in Annual Report (2001-2006).

Case 4-GS1

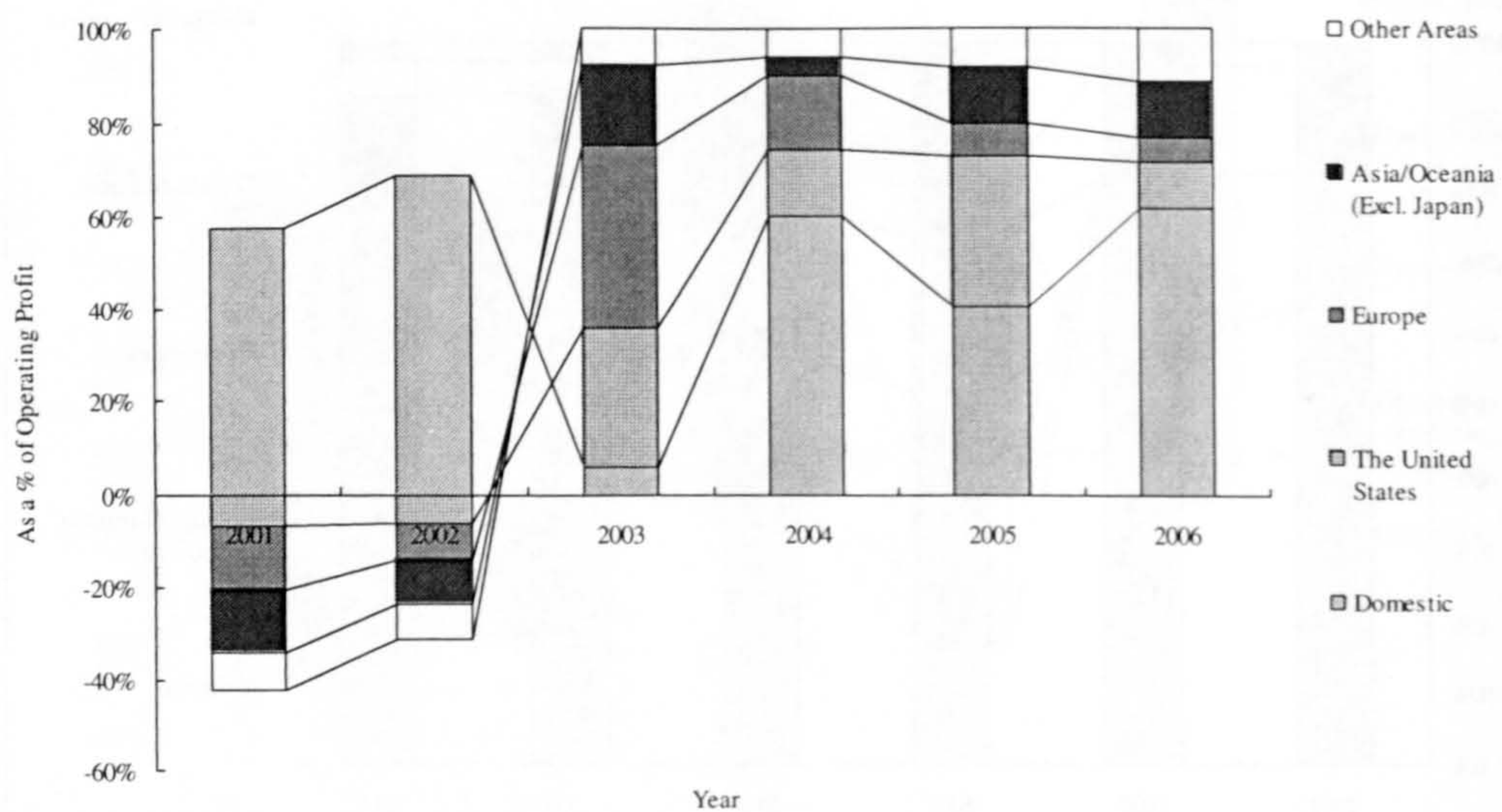
Change of Assets by Geographical Segment



Note: 1) Fiscal year ended on March 31 each year; 2) The financials are based on group consolidated data.
Source: Segment Report in Annual Report (2001-2006).

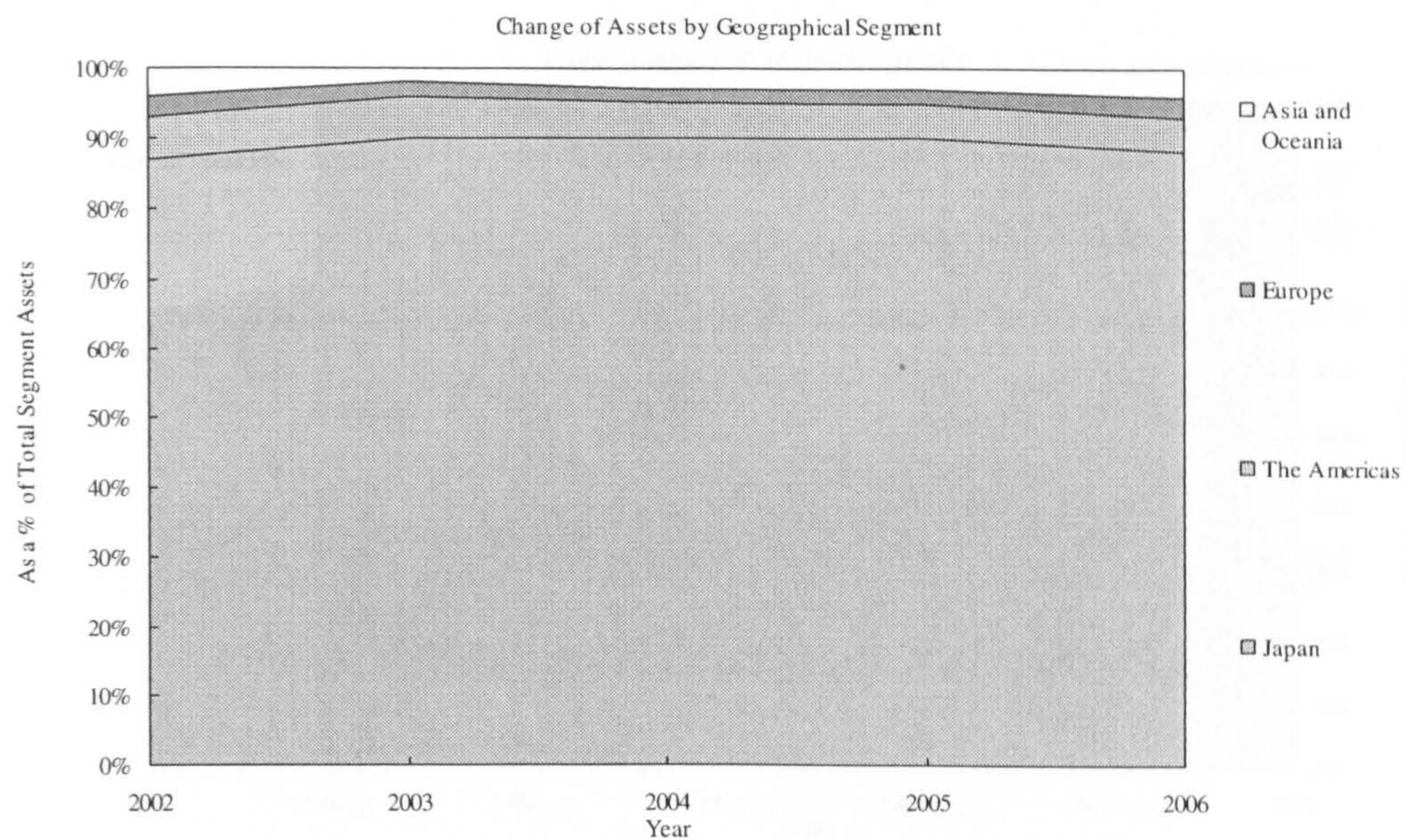
Case 4-GS2

Change of Contribution to Operating Profit by Geographical Segment



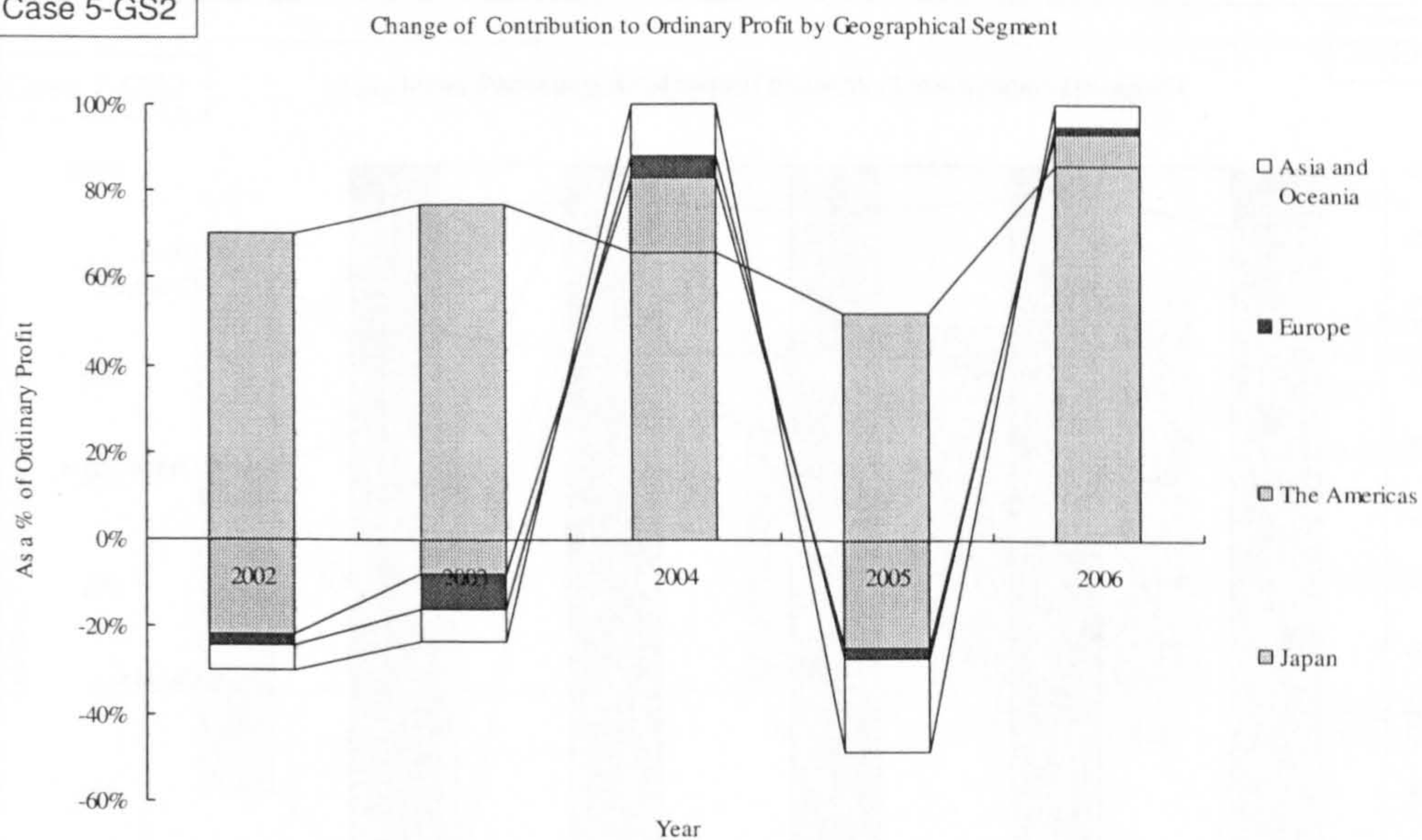
Note: 1) Fiscal year ended on March 31 each year; 2) Operating profit is reported; 3) The financials are based on group consolidated data.
Source: Segment Report in Annual Report (2001-2006).

Case 5-GS1



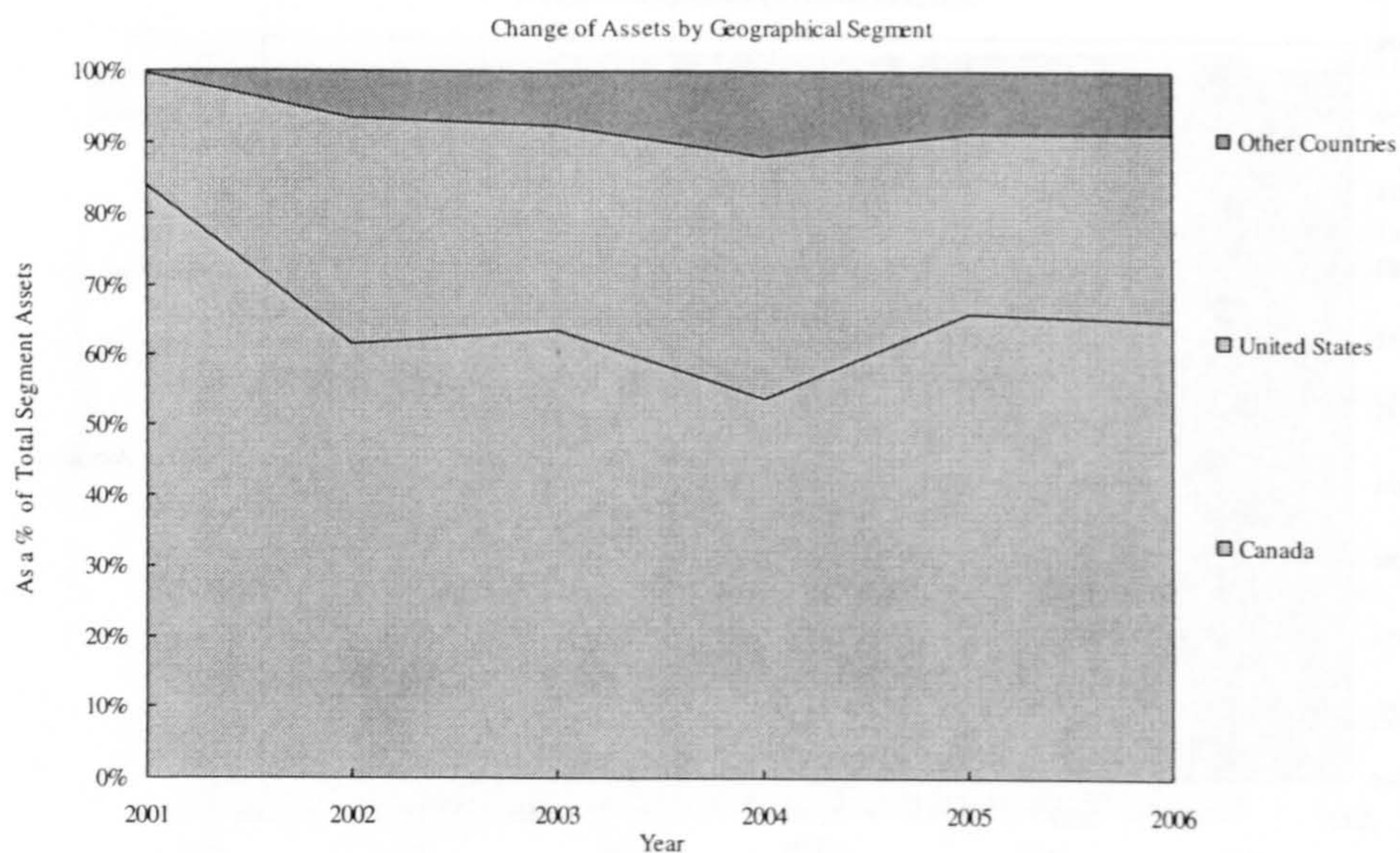
Note: Fiscal year ended on March 31 each year.
Source: Segment Report in Annual Report (2002-2006).

Case 5-GS2



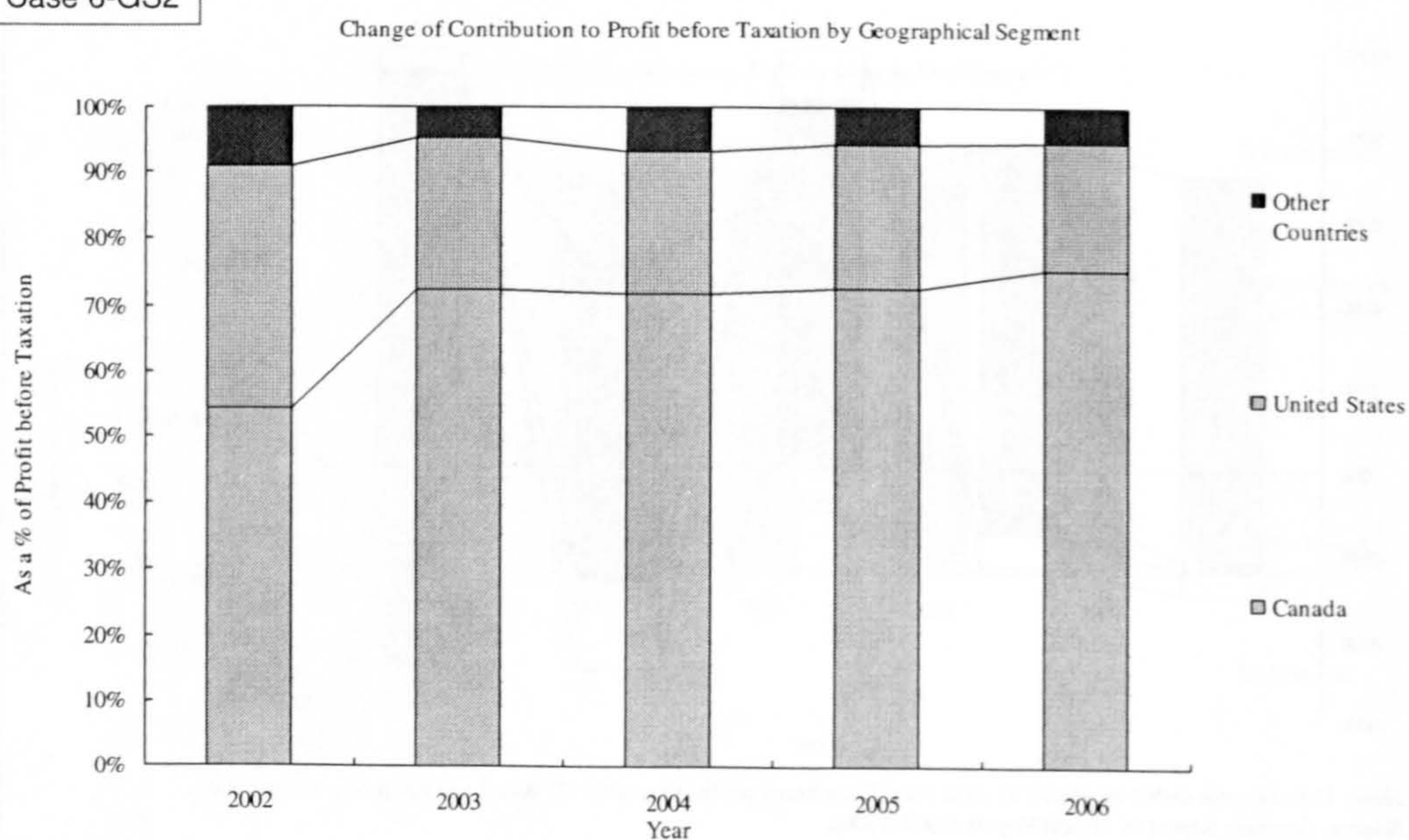
Note: 1) Fiscal year ended on March 31 each year; 2) Ordinary profit is reported; 3) Based on Group consolidated data.
Source: Segment Report in Annual Report (2002-2006).

Case 6-GS1



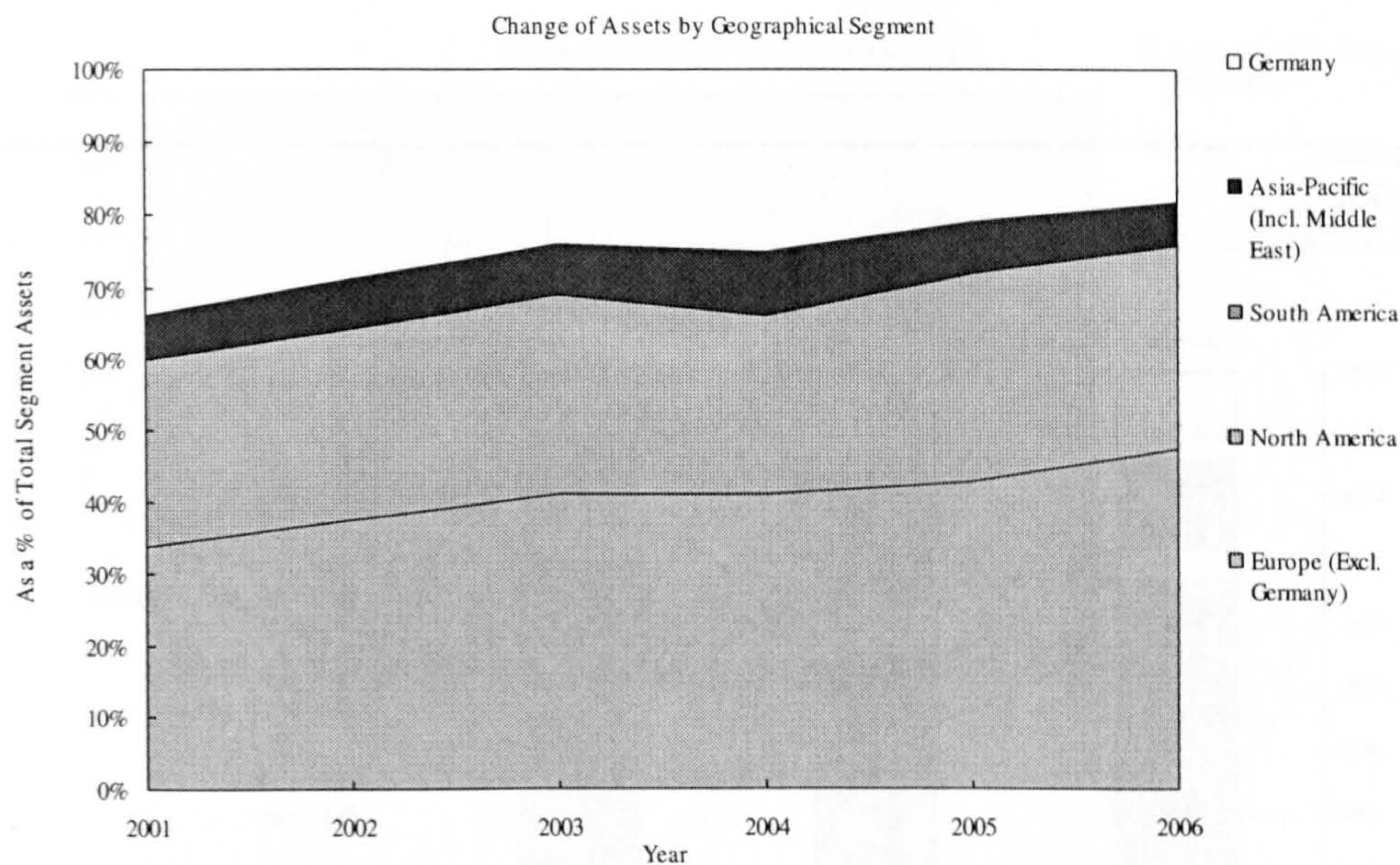
Source: Segment Report in Annual Report (2001-2006).

Case 6-GS2



Source: Segment Report in Annual Report (2002-2006).

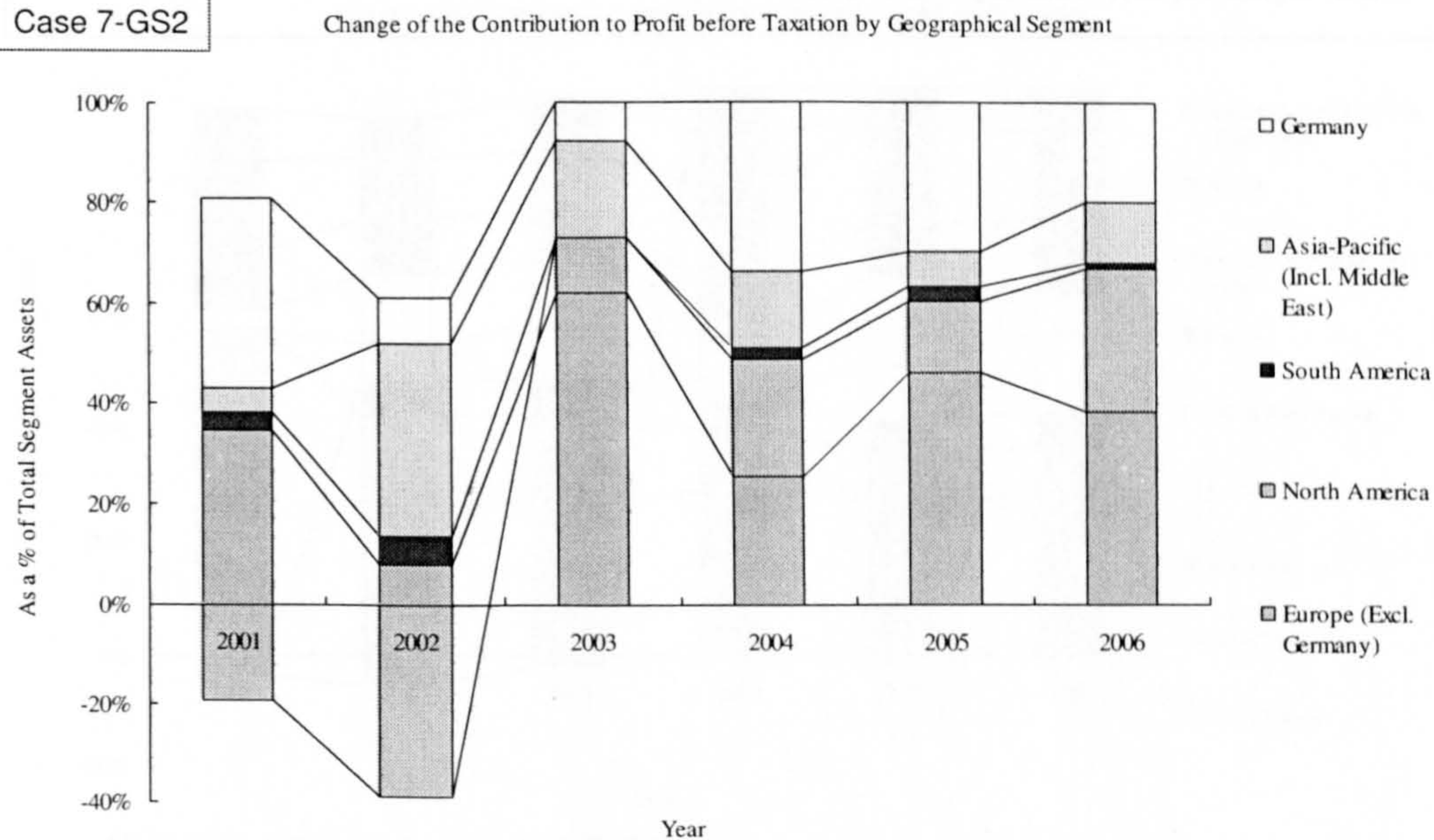
Case 7-GS1



Note: The segment of South America has too small a proportion of assets to be indicated in the diagram. It has also been reported together with the segment of North America since 2006.

Source: Segment Report in Annual Report (2001-2006).

Case 7-GS2

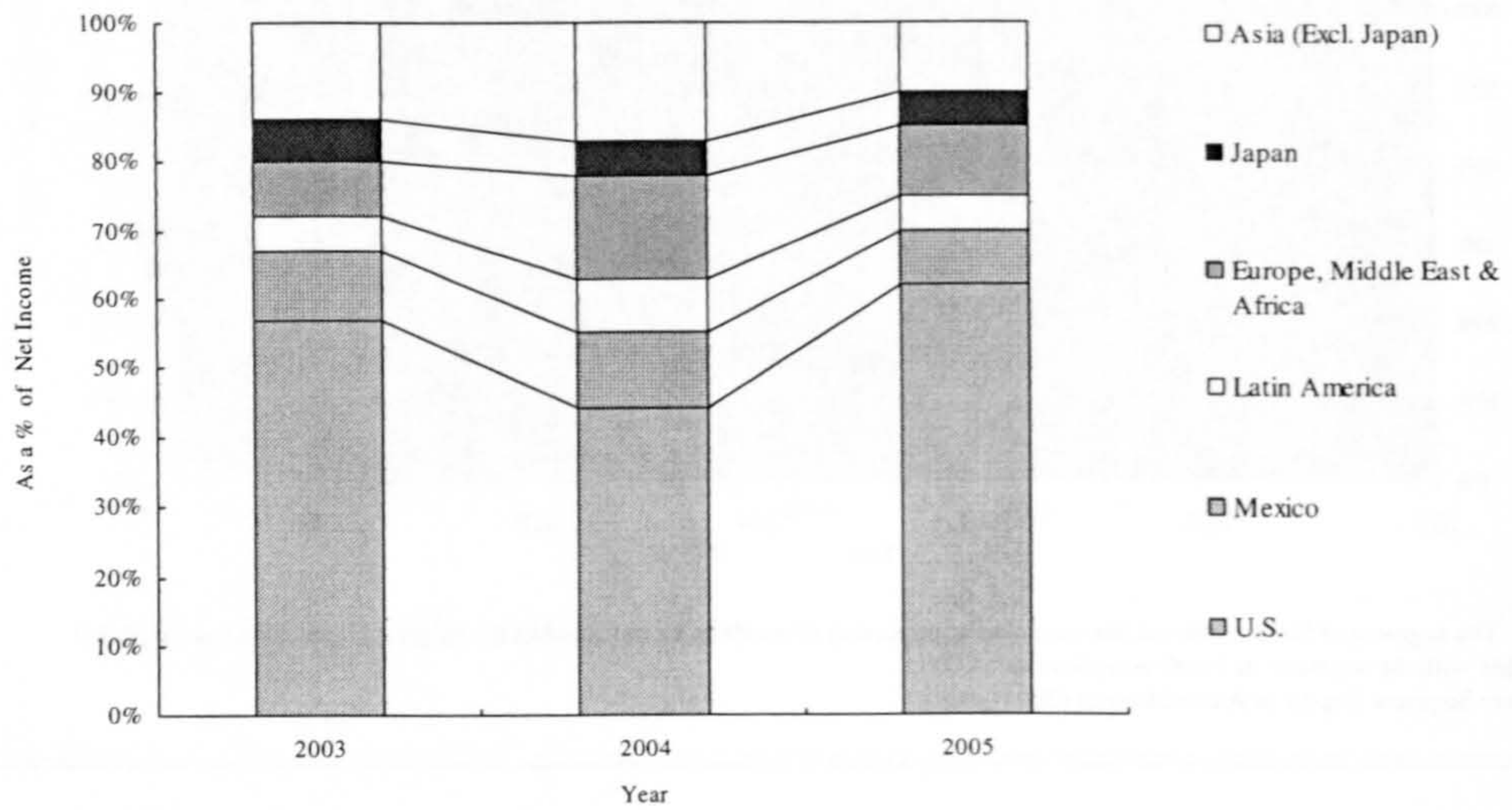


Note: The segment of South America has too small a proportion of assets to be indicated in the diagram. It has also been reported together with the segment of North America since 2006.

Source: Segment Report in Annual Report (2001-2006).

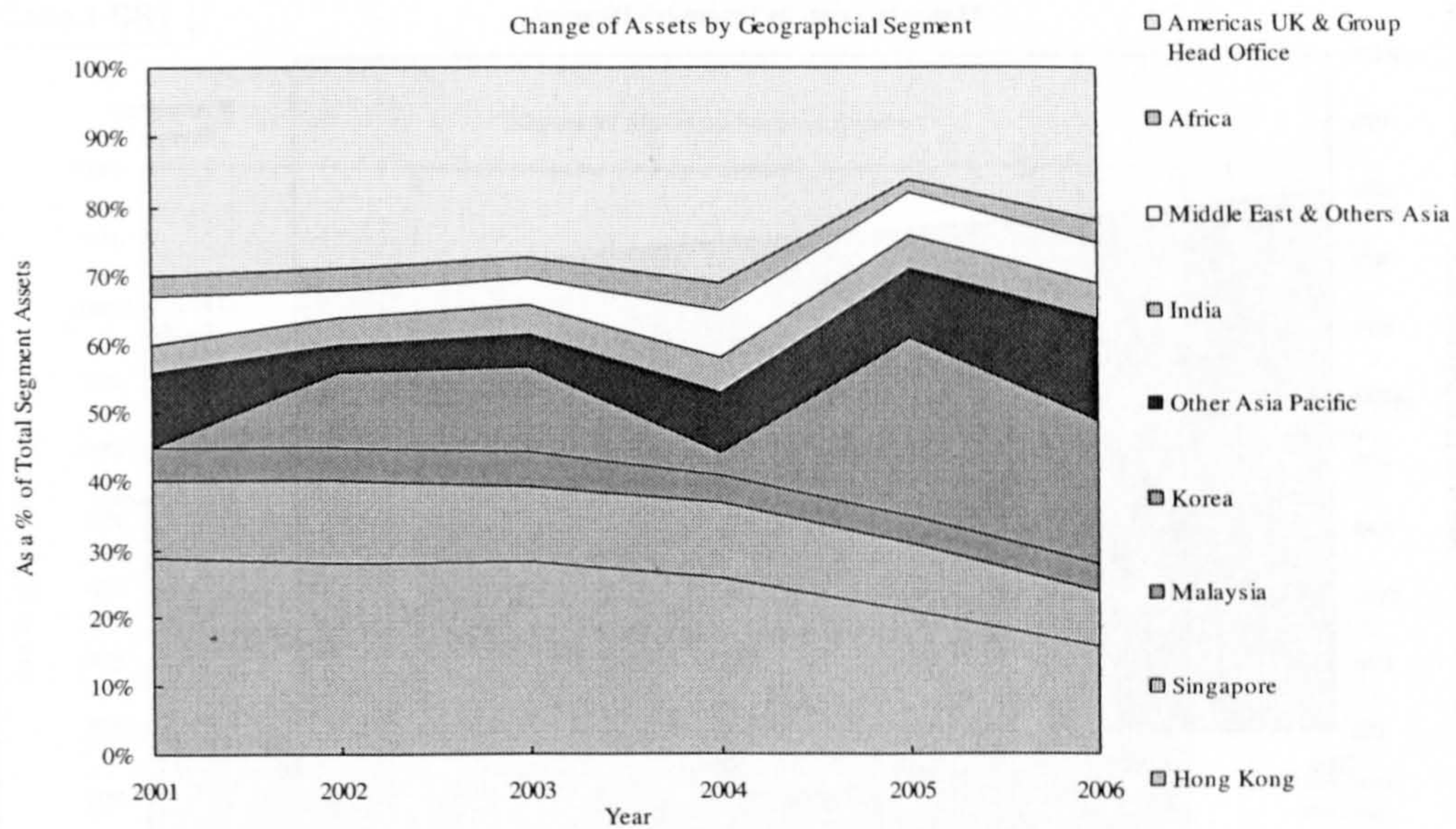
Case 8-GS2

Change of Contribution to Net Income by Geographical Segment



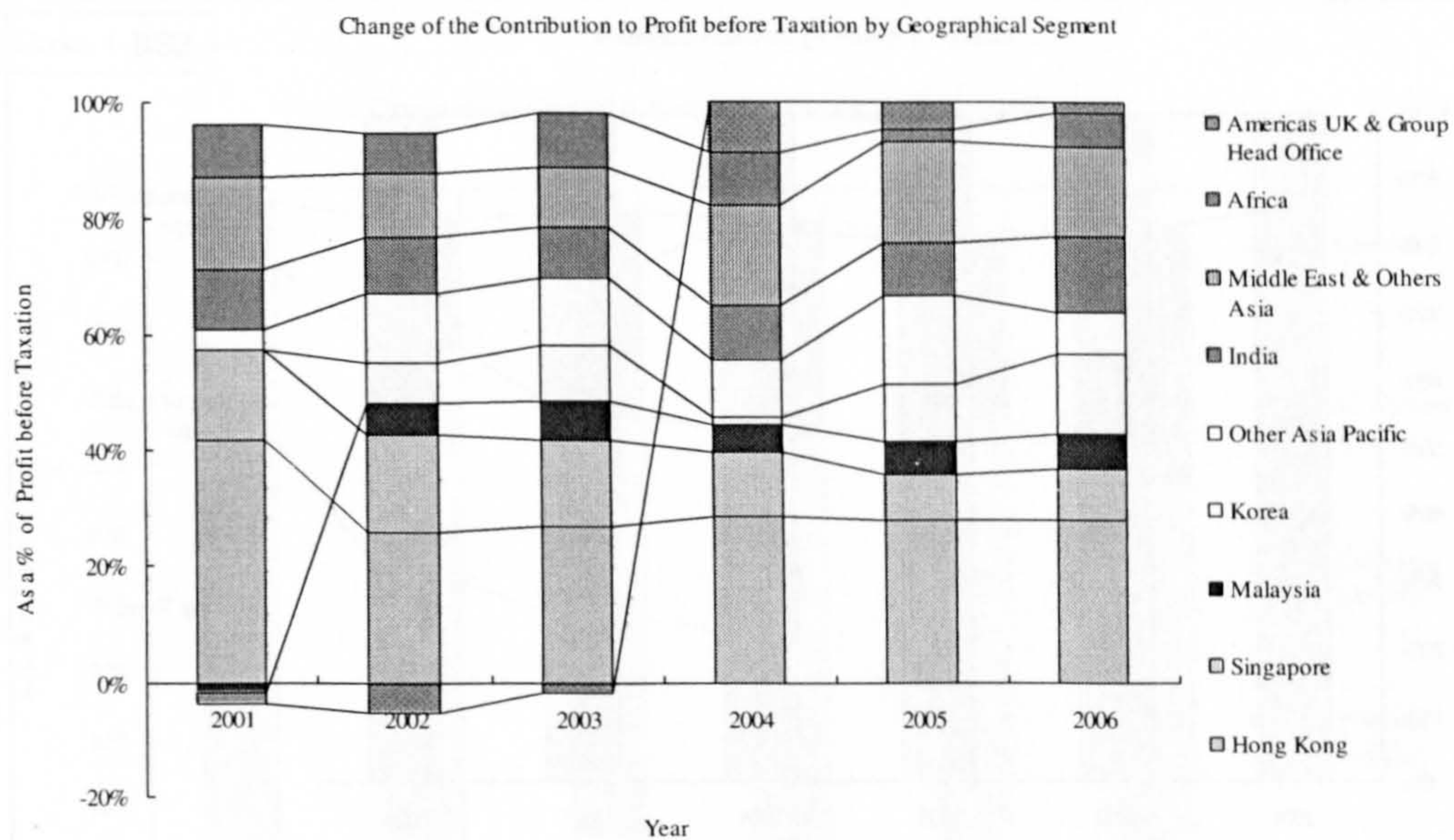
Note: 1) Segment changed before 2003 and after 2005; 2) Group consolidated data is used; 3) Net income is reported.
Source: Segment Report in Annual Report (2003-2005).

Case 9-GS1



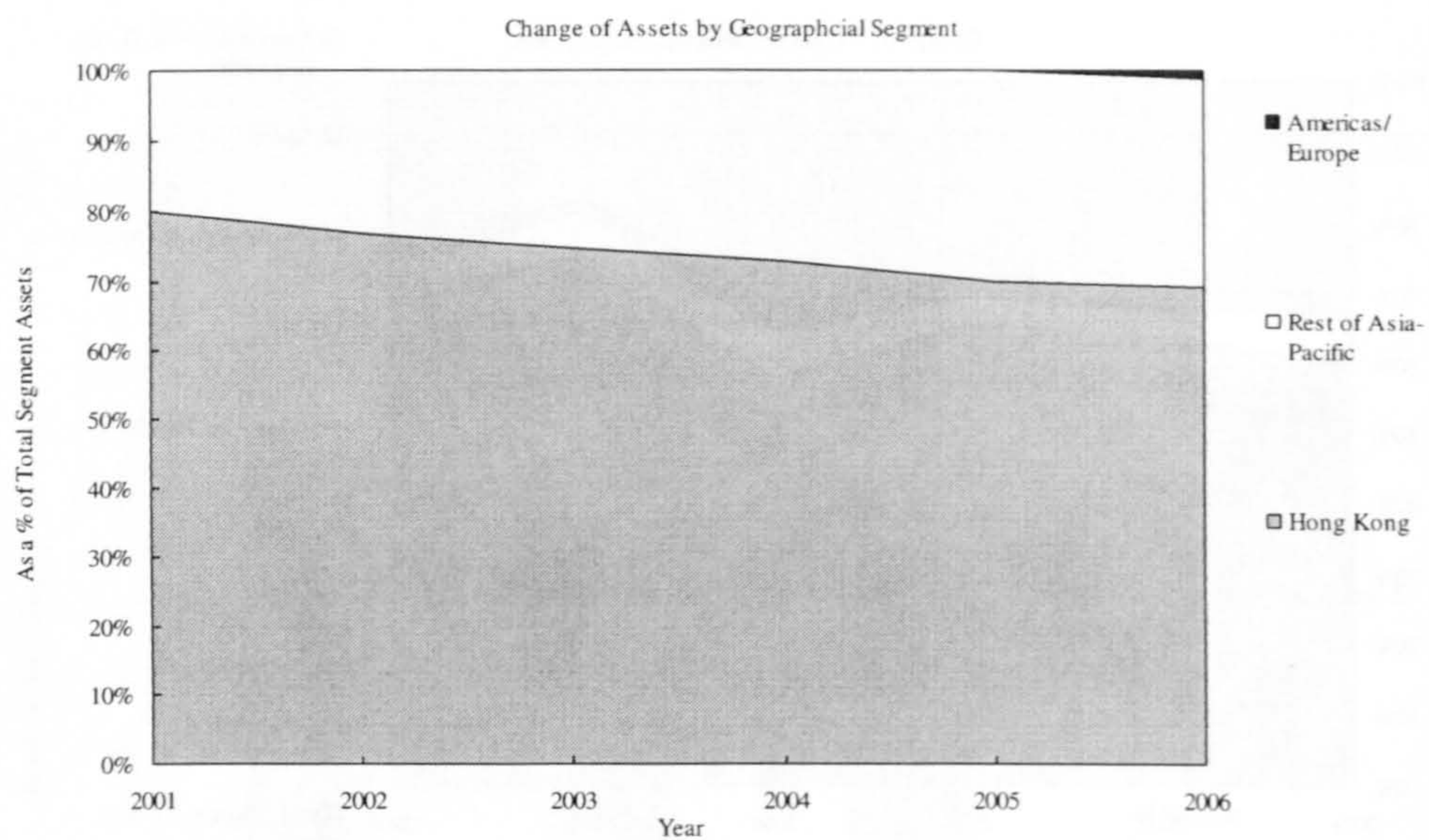
Source: Segment Report in Annual Report (2001-2006).

Case 9-GS2



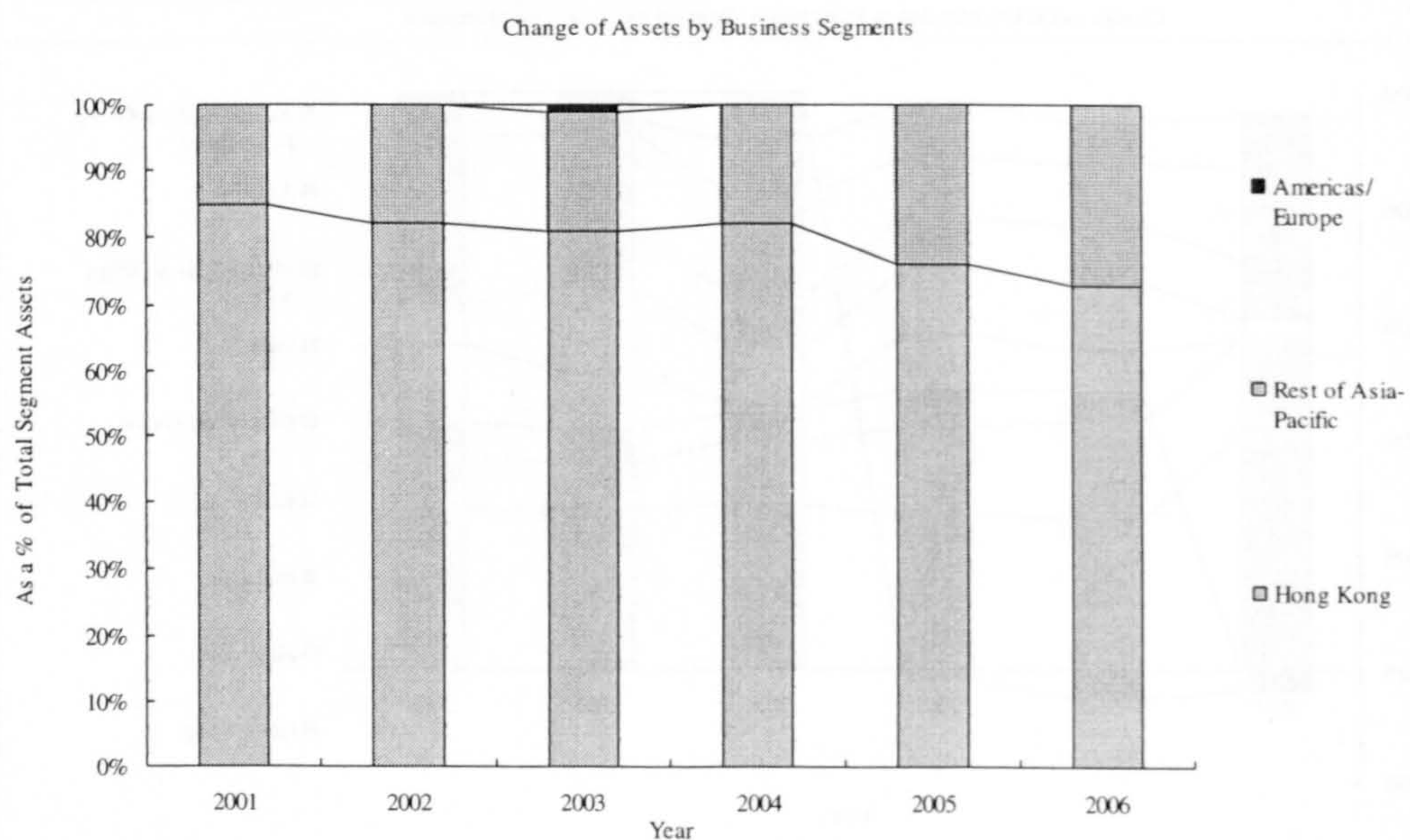
Source: Segment Report in Annual Report (2001-2006).

Case 10-GS1



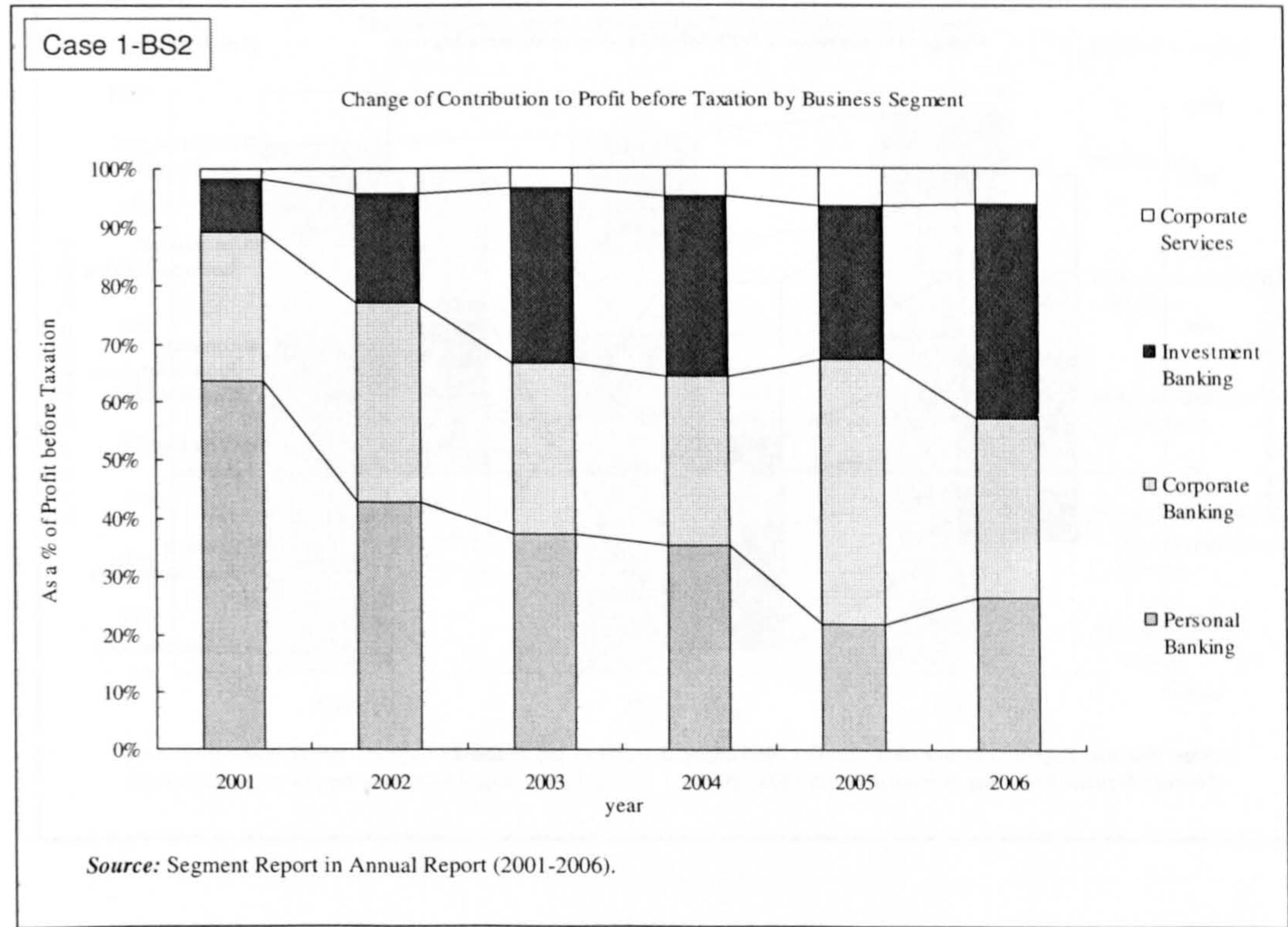
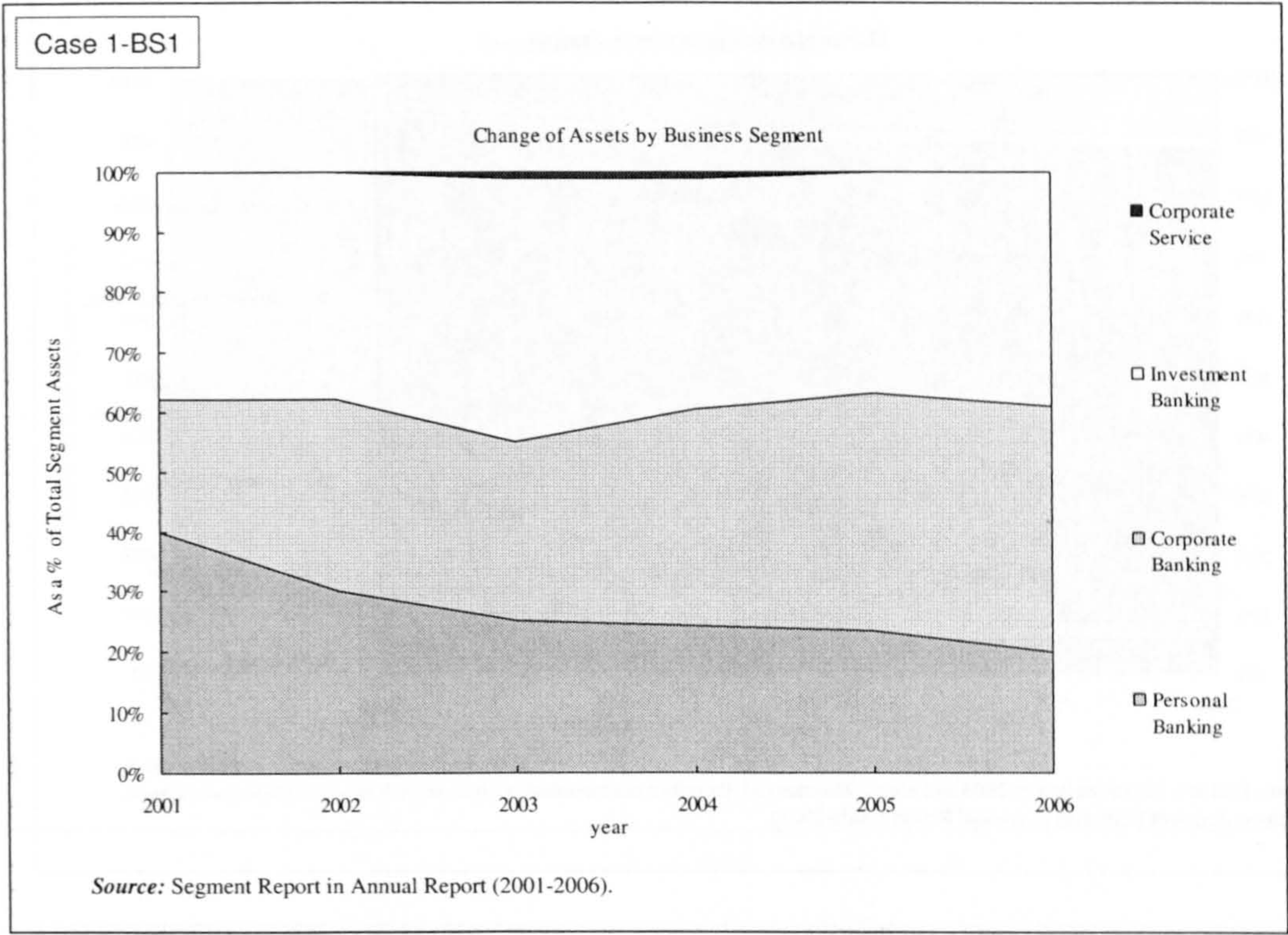
Note: 1) Assets to the America/Europe Segment are insignificant and that doesn't show in the diagram; 2) Intra-segment elimination is not considered.
Source: Segment Report (Annual Report 2001-2006).

Case 10-GS2

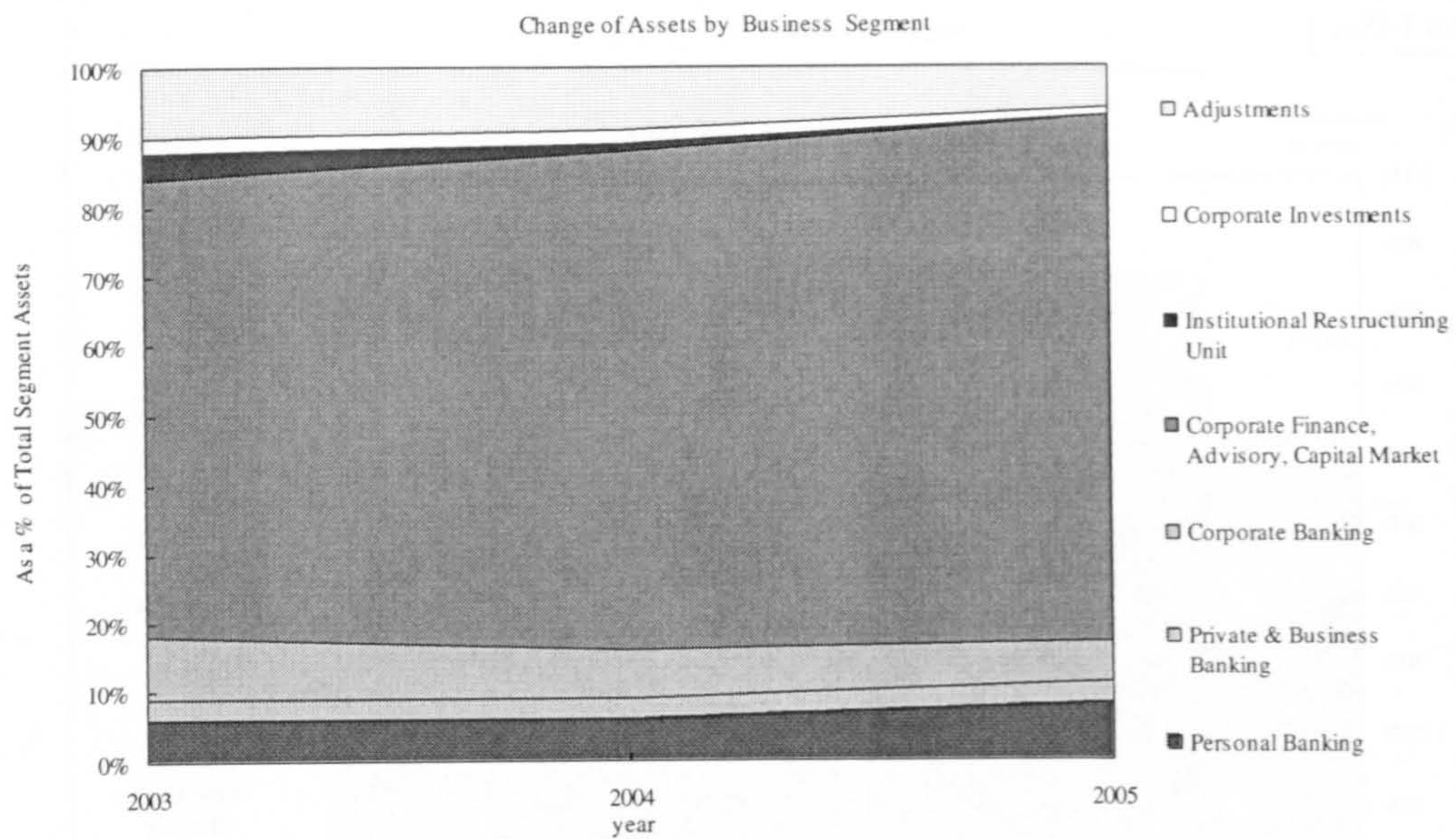


Note: 1) Assets to the America/Europe Segment are insignificant but that does not show in the diagram; 2) Intra-segment elimination is not considered.
Source: Segment Report (Annual Report 2001-2006).

Appendix E-2Business Segment Analysis (Cases 1-10)

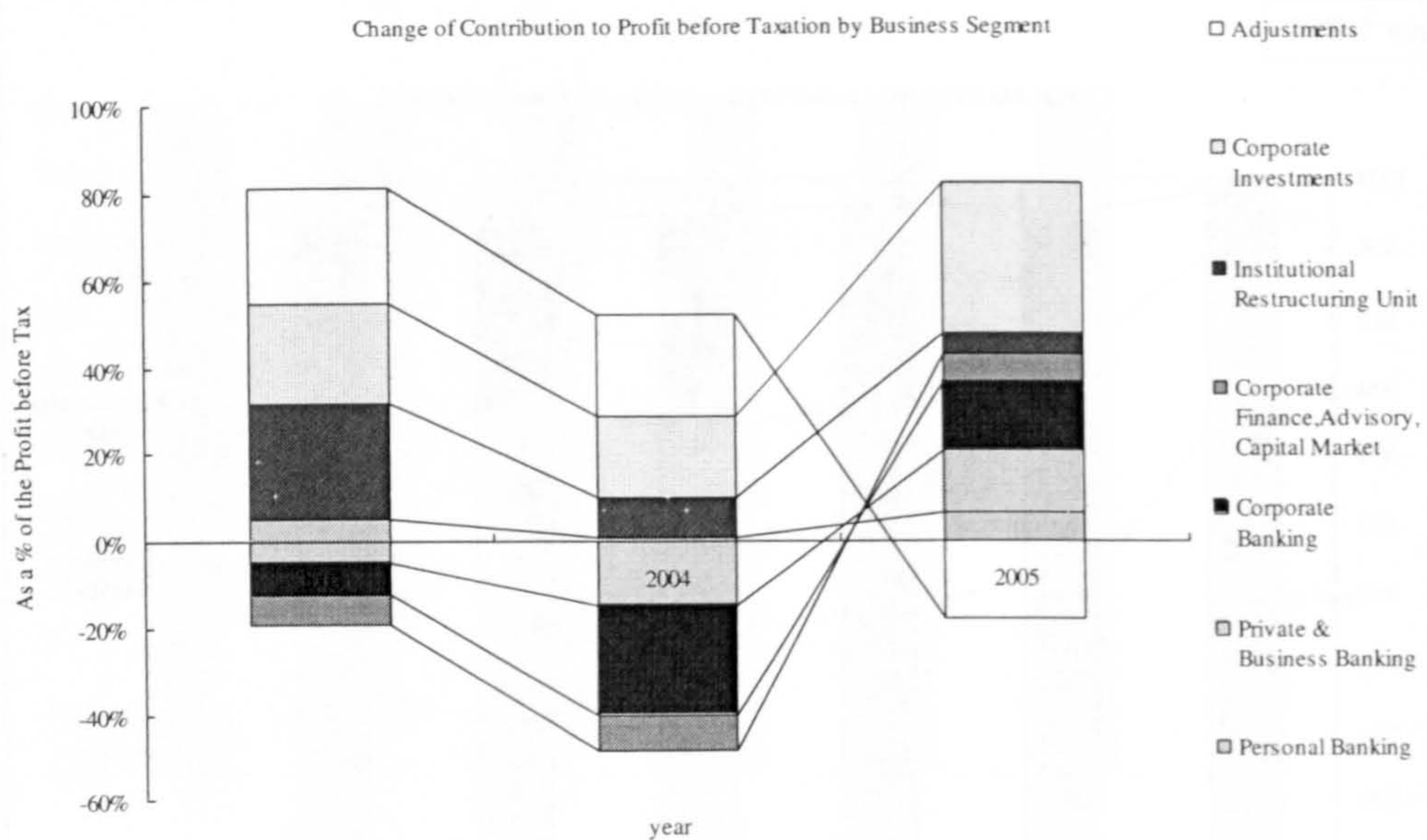


Case 2-BS1



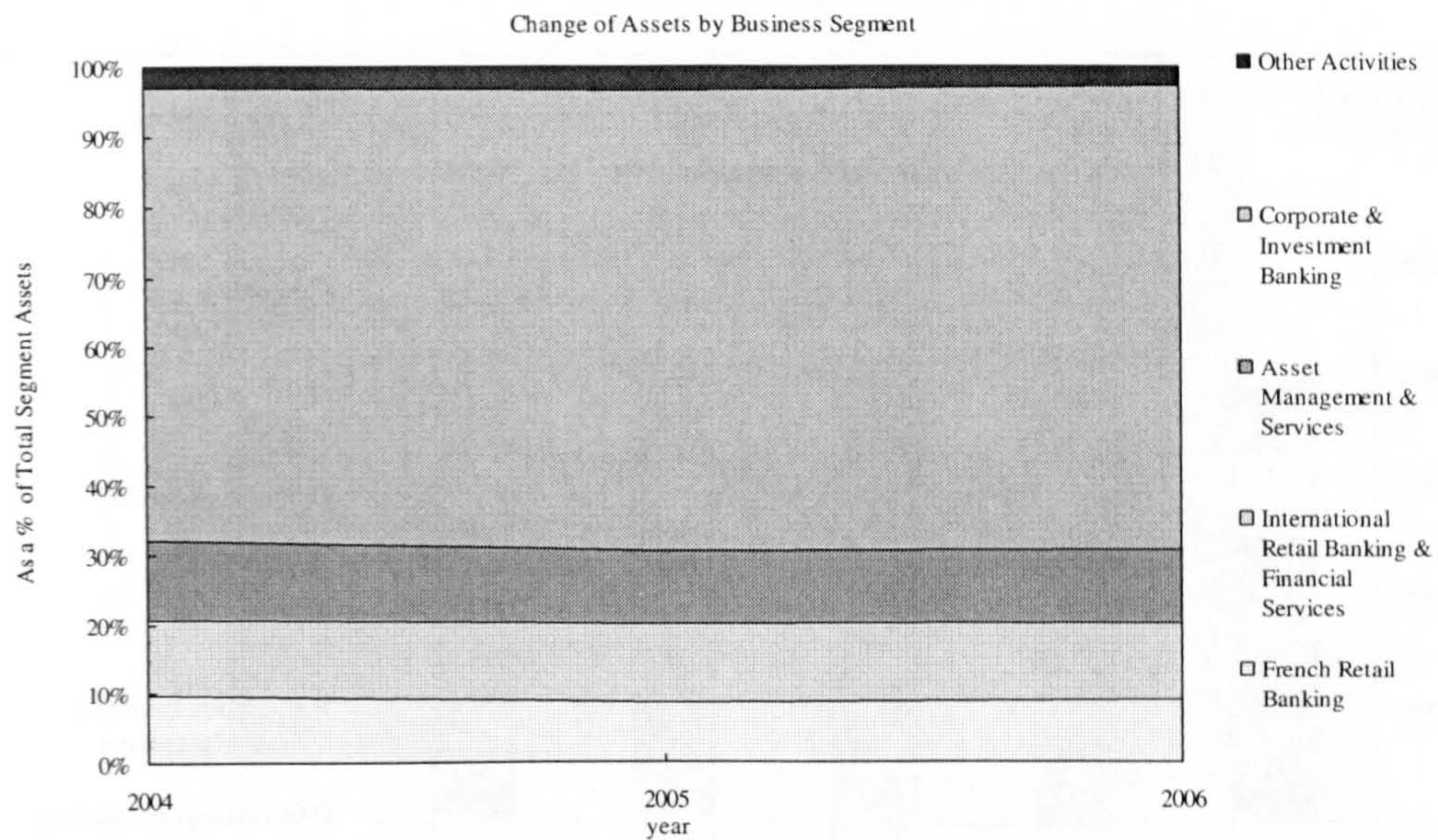
Note: Business Segments before 2003 and after 2006 changed, therefore not included.
Source: Segment Reporting in Annual Report (2003-2005).

Case 2-BS2



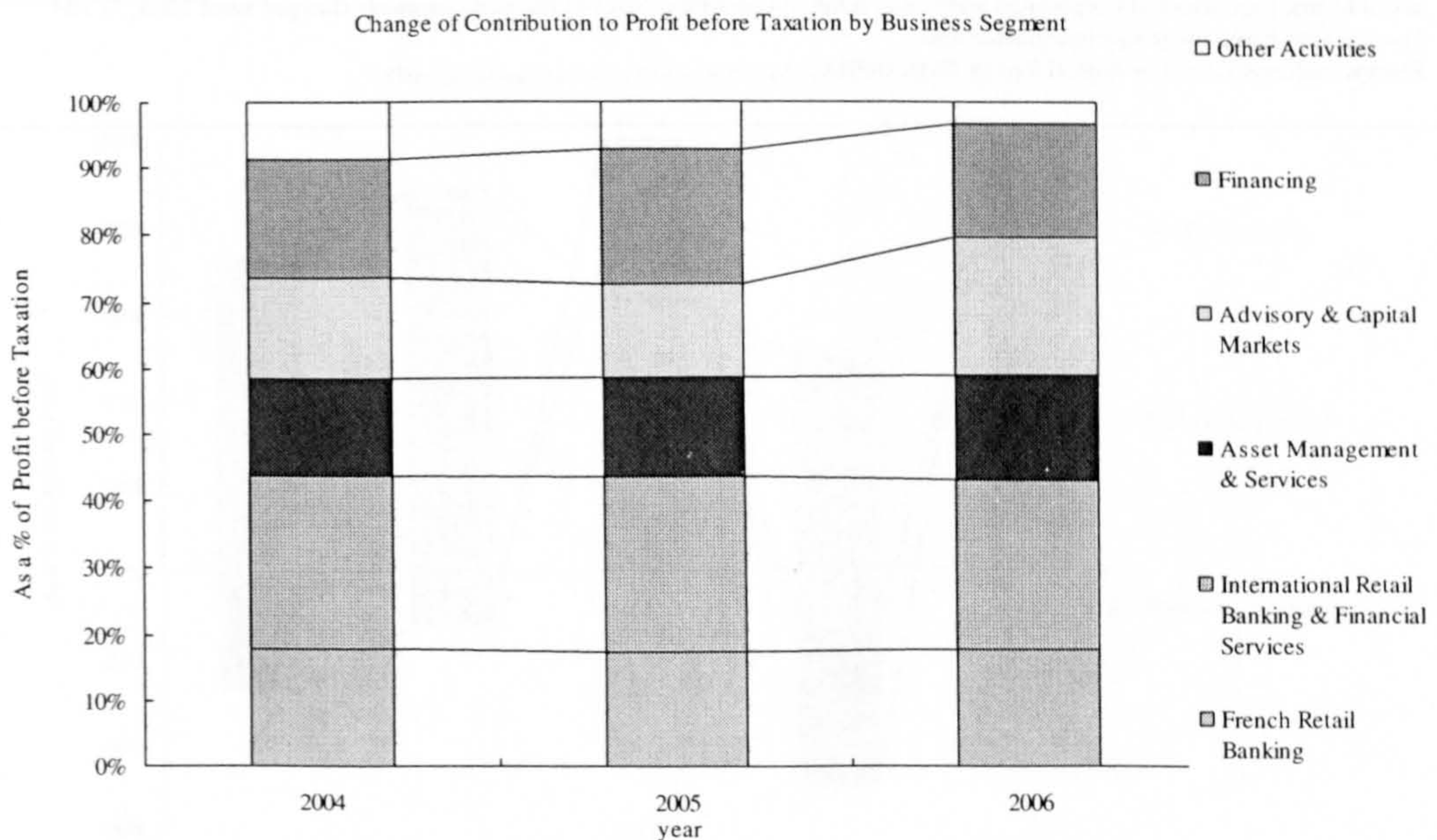
Note: Business Segments before 2003 and after 2006 changed, therefore not included.
Source: Segment Reporting in Annual Report (2003-2005).

Case 3-BS1



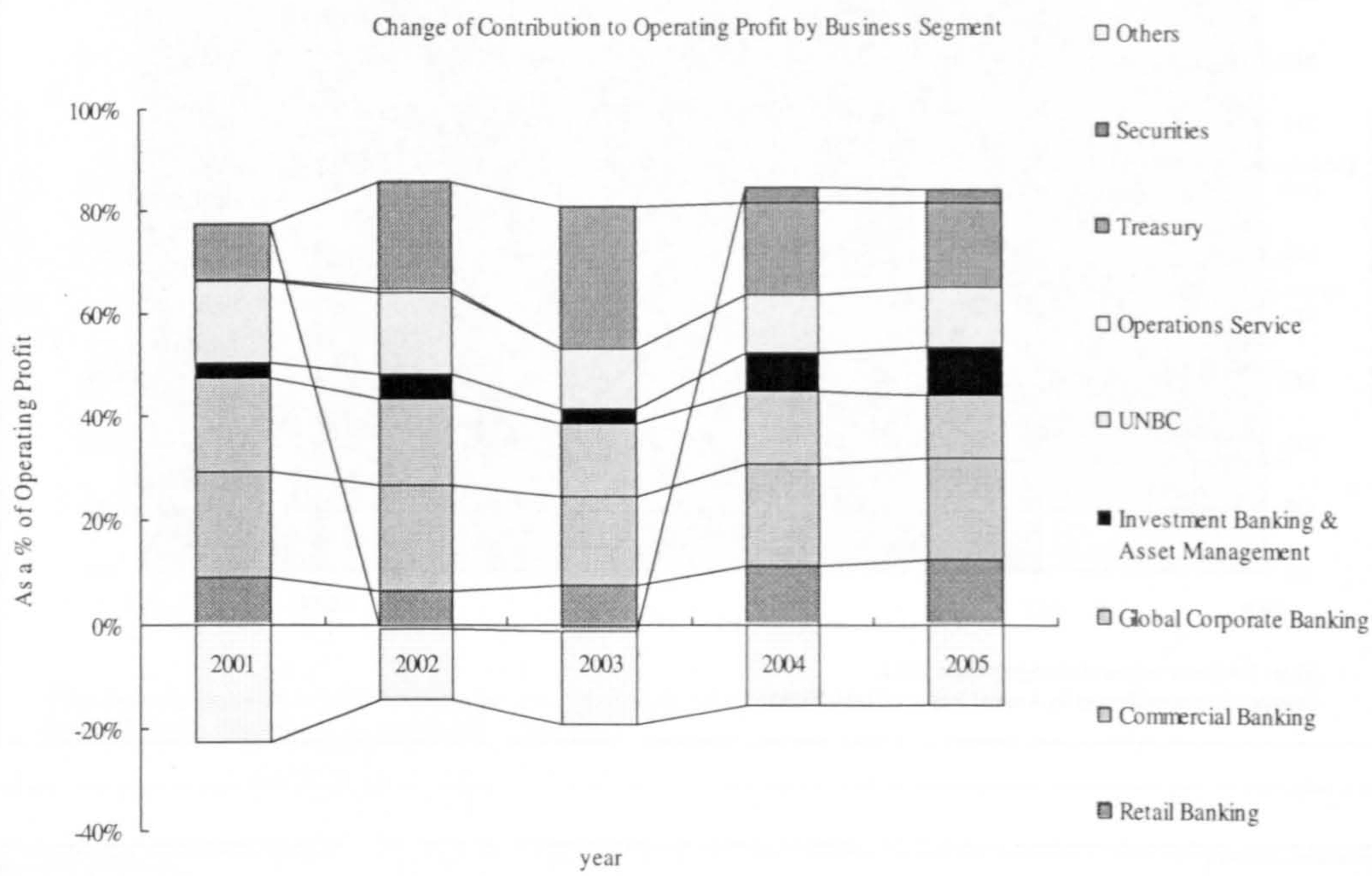
Note: Business segment changed since 2004.
Source: Segment Report in Annual Report (2004-2006).

Case 3-BS2



Note: Business segment changed since 2004.
Source: Segment Report in Annual Report (2004-2006).

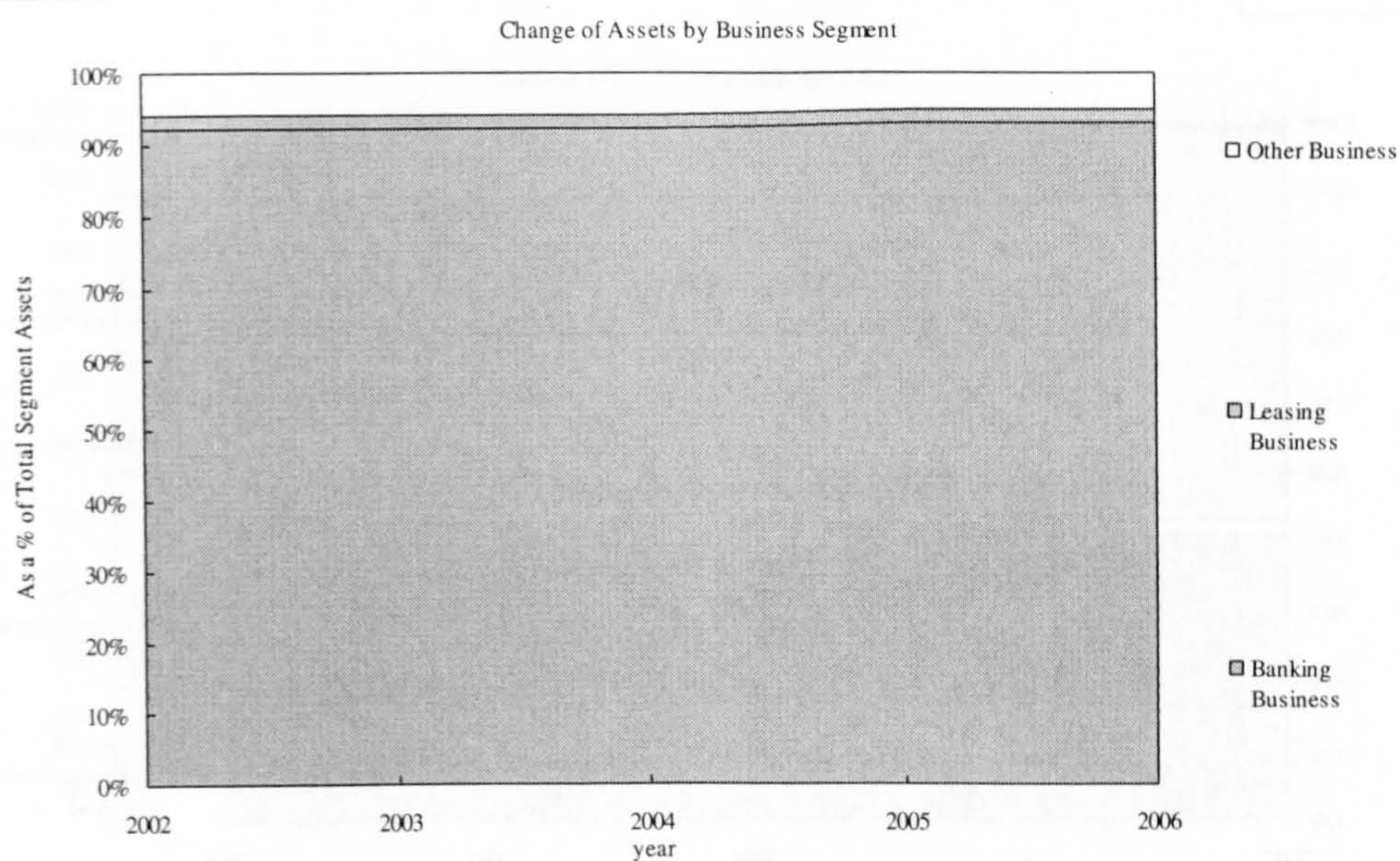
Case 4-BS2



Note: 1) Fiscal year ended on March 31 each year; 2) Operating profit is reported; 3) UNBC business unit includes its subsidiary in California, UnionBanCal Corporation and Union Bank of California, N.A.; 4) Business segments changed since 2005; 5) The financials are based on group consolidated data.

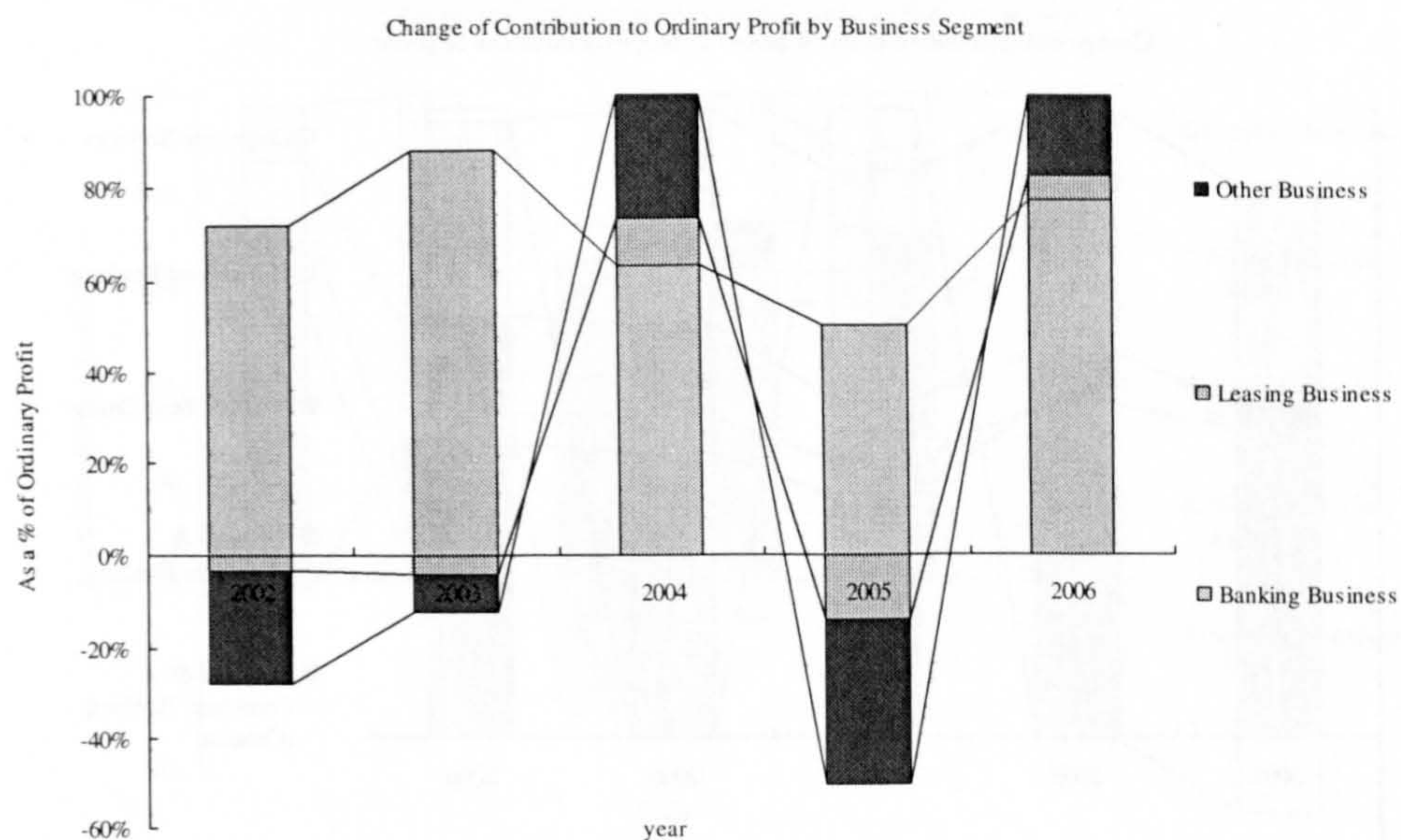
Source: Segment Report in Annual Report (2001-2005).

Case 5-BS1



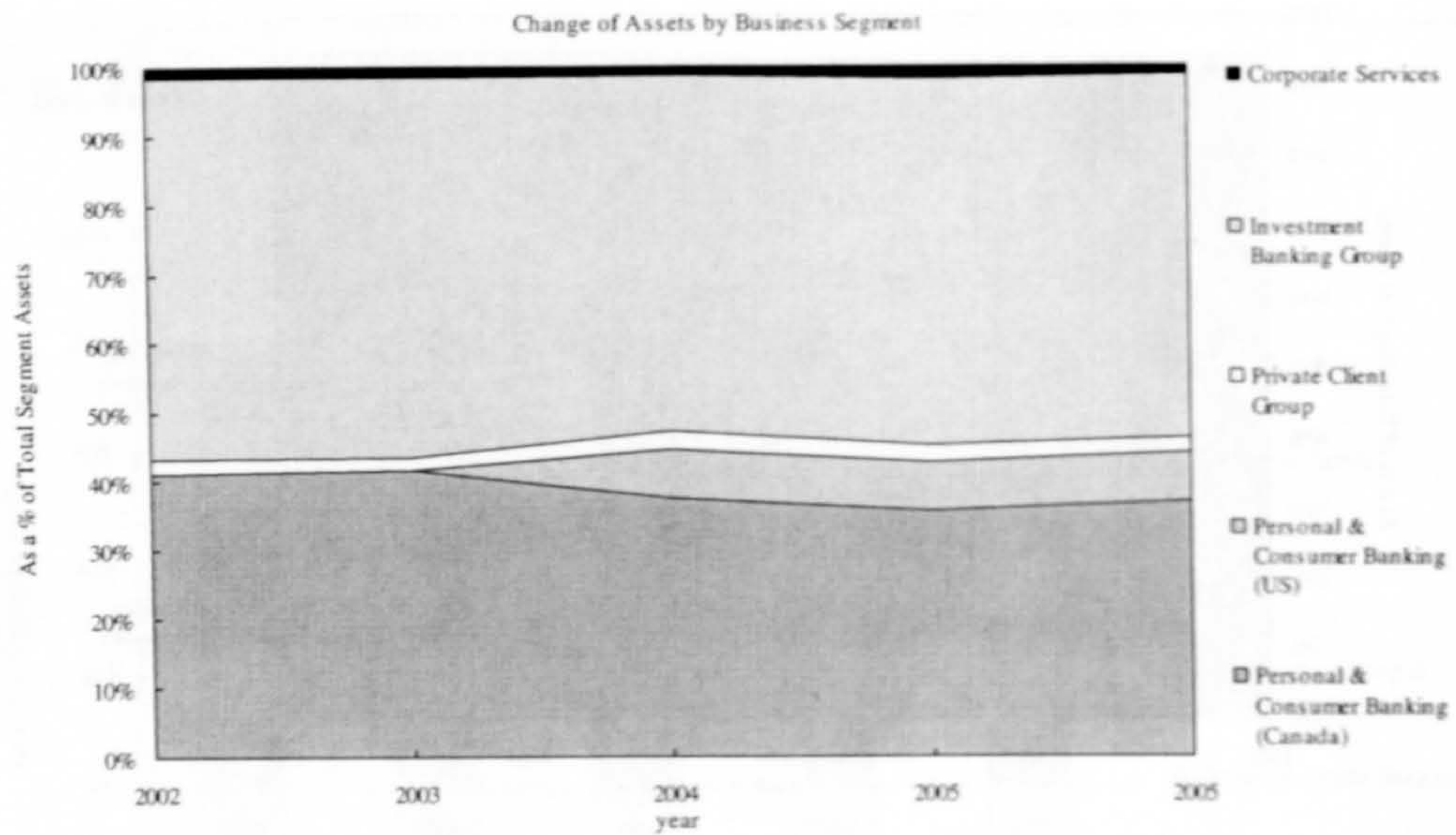
Note: Fiscal year ended on March 31 each year.
Source: Segment Report in Annual Report (2002-2006).

Case 5-BS2



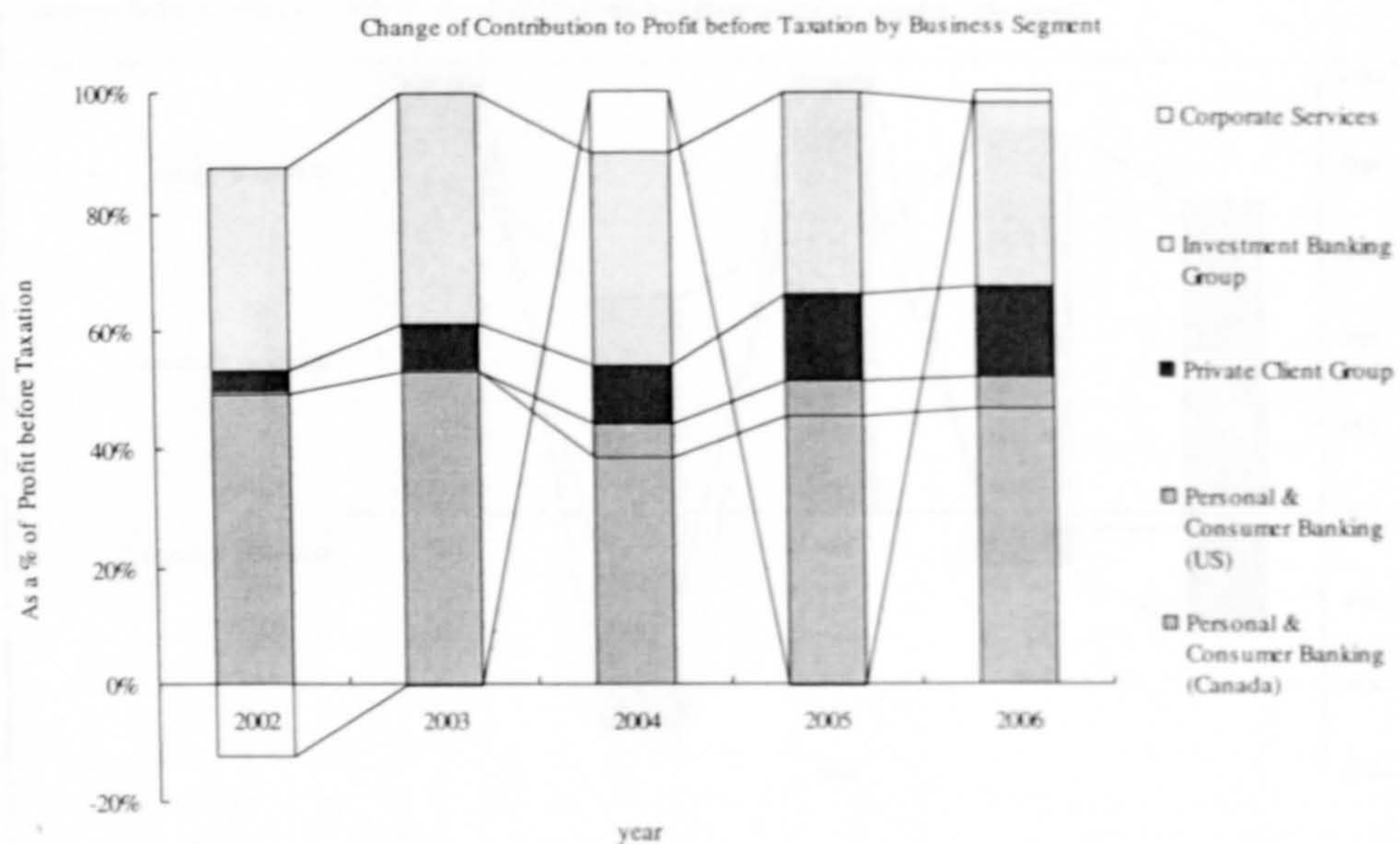
Note: 1) Fiscal year ended on March 31 each year; 2) Ordinary profit is reported; 3) Based on Group consolidated data.
Source: Segment Report in Annual Report (2002-2006).

Case 6-BS1



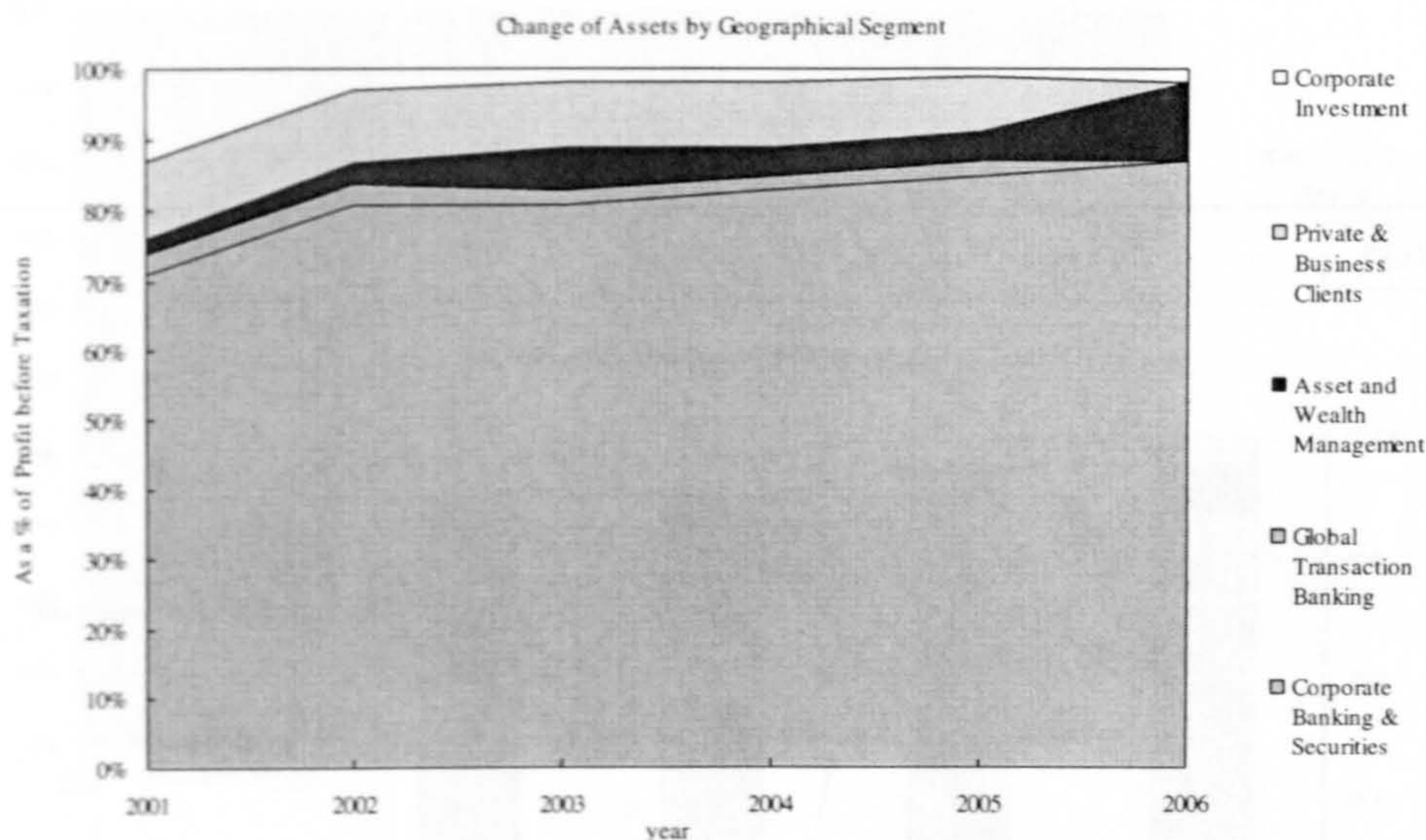
Note: Personal Consumer Banking in Canada and US market segments have been reported separately since 2003.
Source: Segment Report in Annual Report (2002-2005).

Case 6-BS2



Note: Personal Consumer Banking in Canada and US market segments have been reported separately since 2003.
Source: Segment Report in Annual Report (2002-2005).

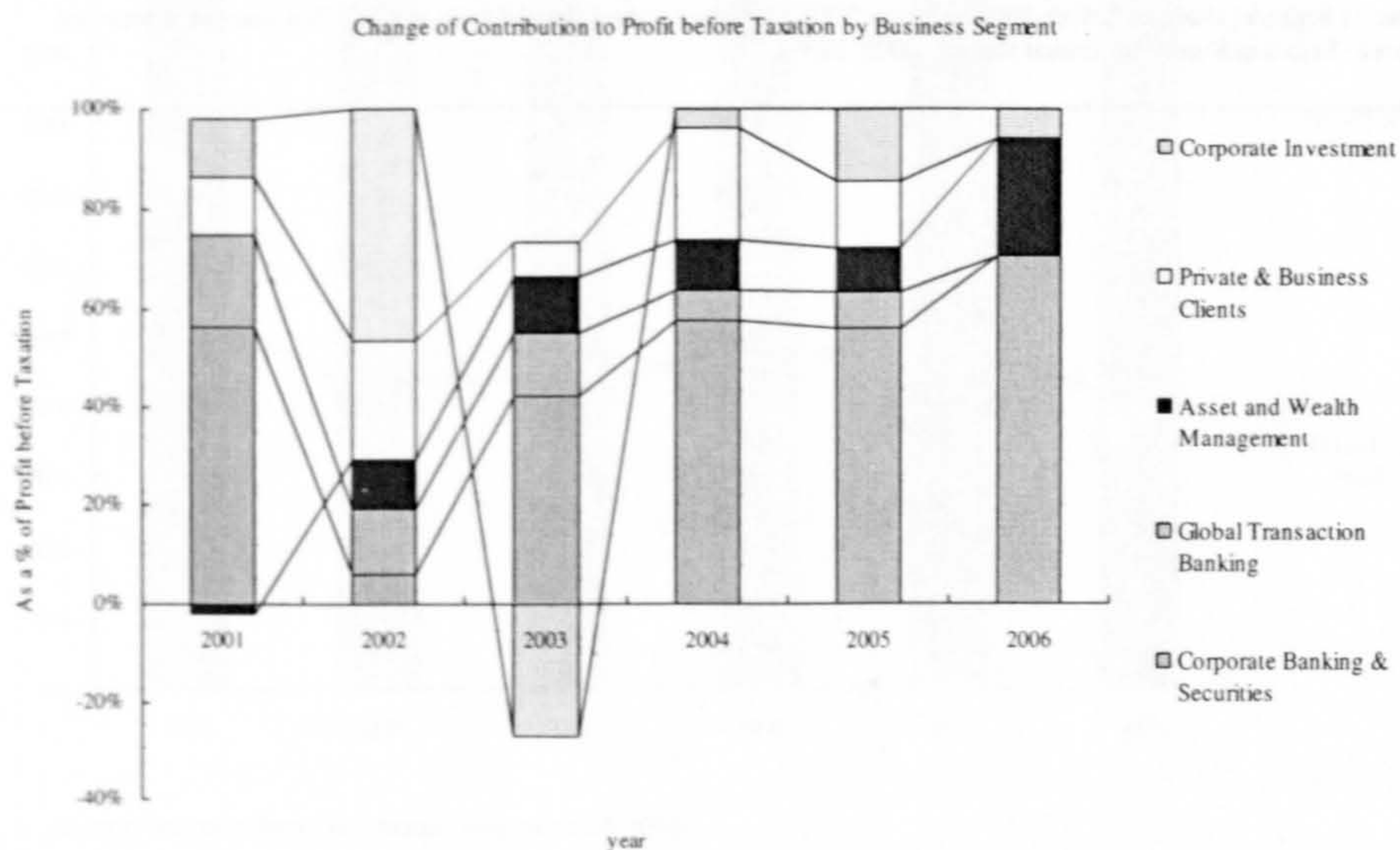
Case 7-BS1



Note: The segment of South America has too small proportion of assets to be indicated in the diagram. It is also reported together with the segment of North America since 2006.

Source: Segment Report in Annual Report (2001-2006).

Case 7-BS2

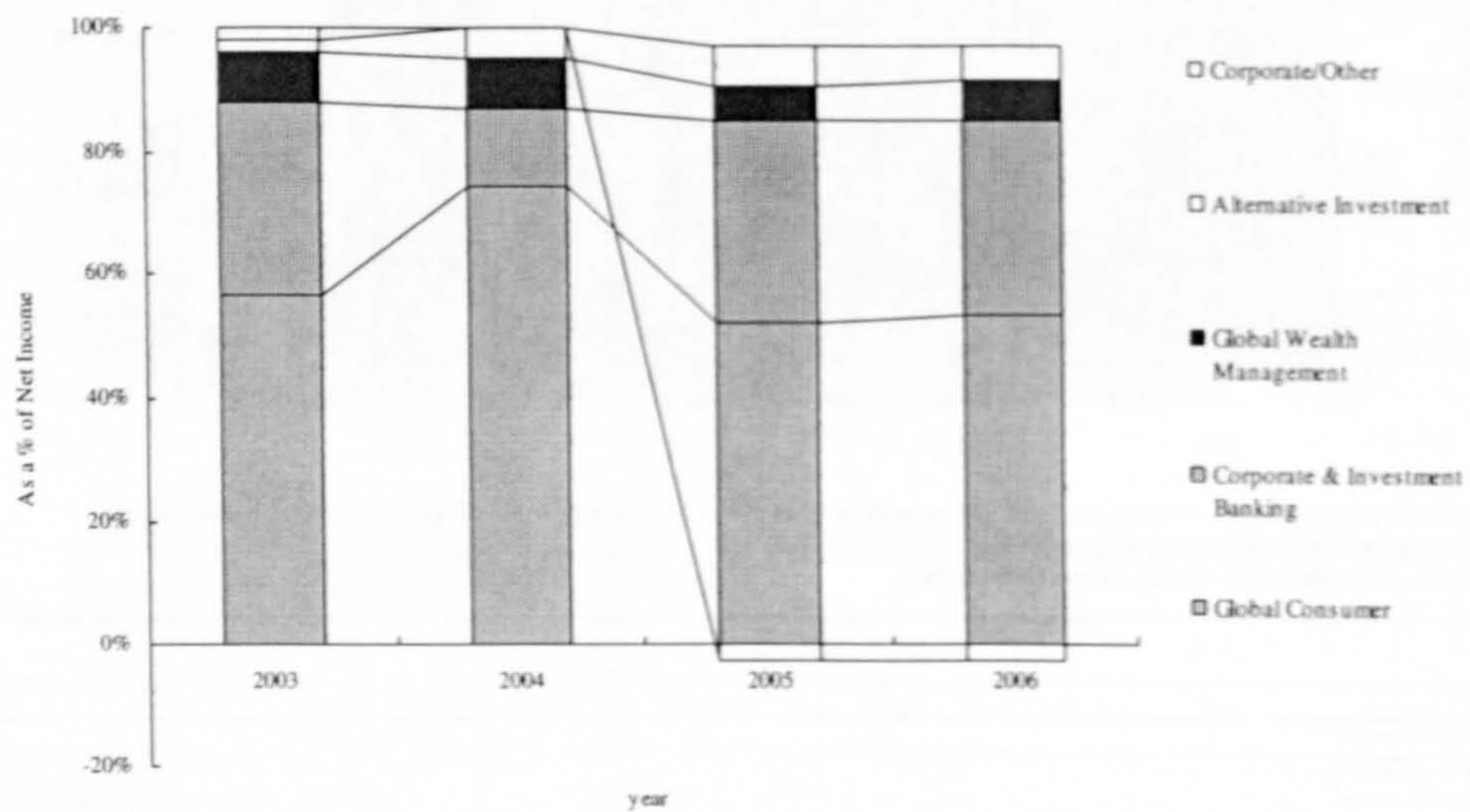


Note: The segment of South America has too small a proportion of assets to be indicated in the diagram. It has also been reported together with the segment of North America since 2006.

Source: Segment Report in Annual Report (2001-2006).

Case 8BS2

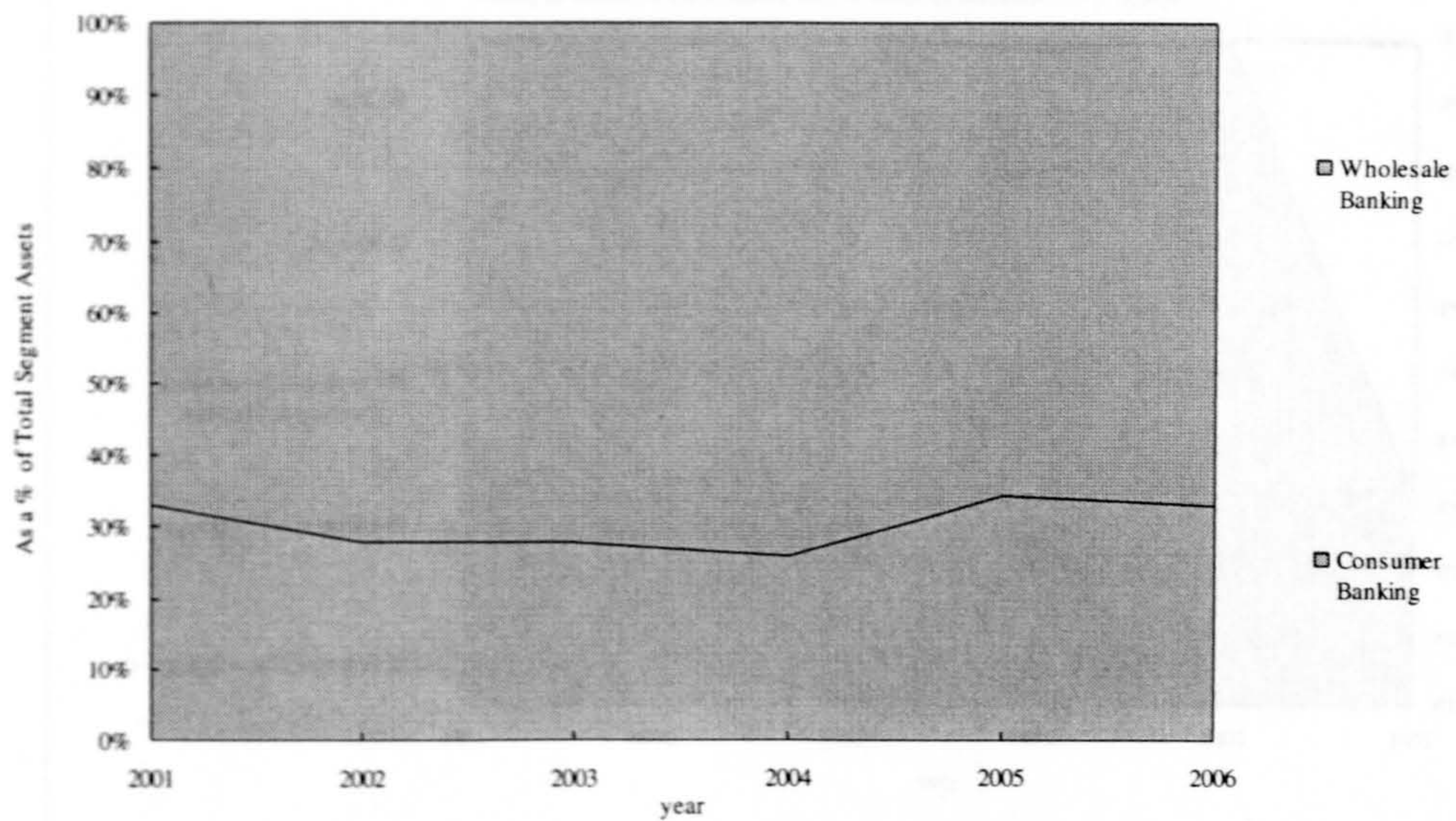
Change of Contribution to Net Income by Business Segment



Note: 1) Segment changed before 2003 and after 2005; 2) Group consolidated data is used; 3) Net income is reported.
Source: Segment Report in Annual Report (2003-2006).

Case 9-BS1

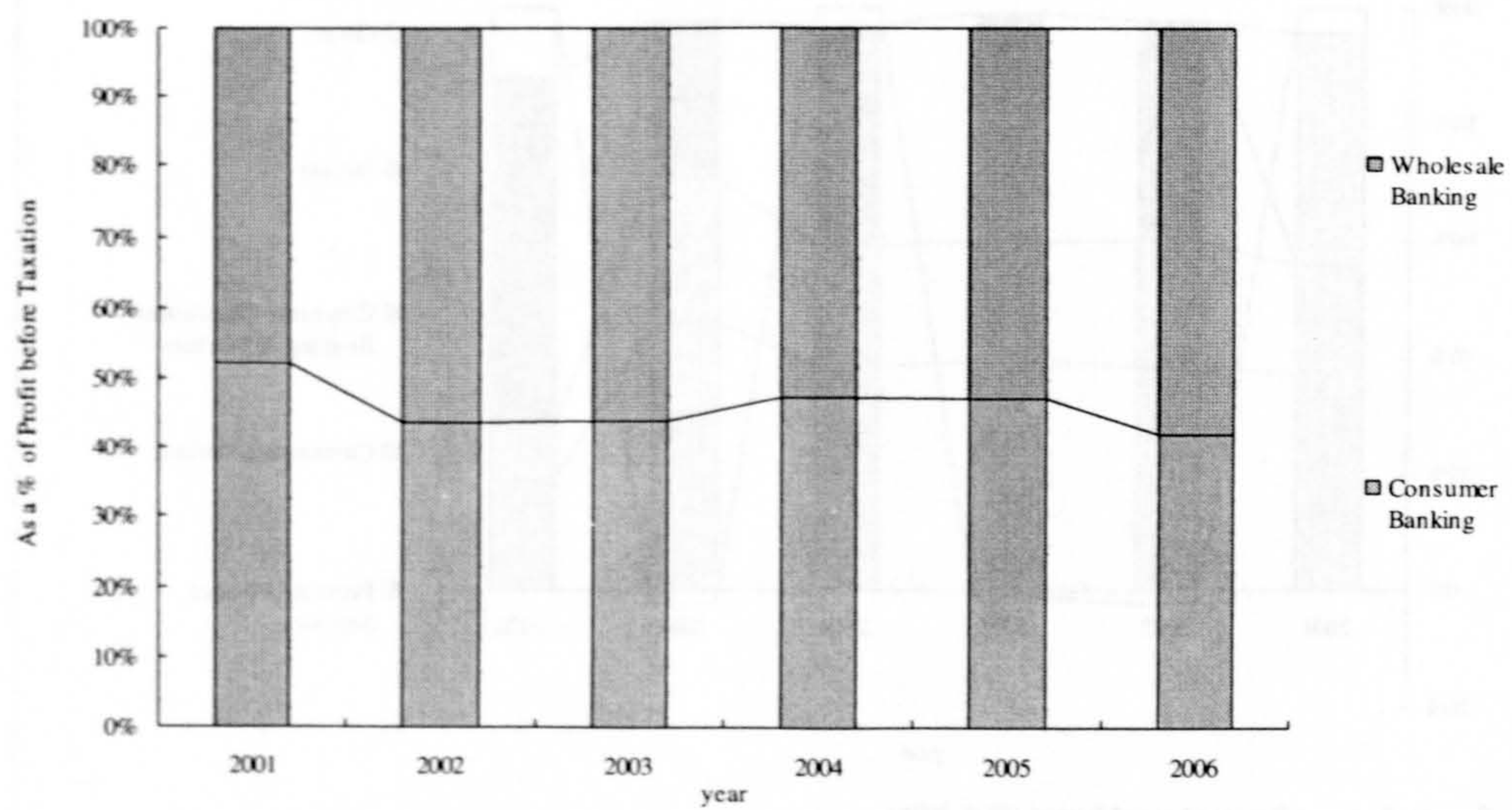
Change of Assets by Business Segment



Source: Segment Report in Annual Report (2001-2006).

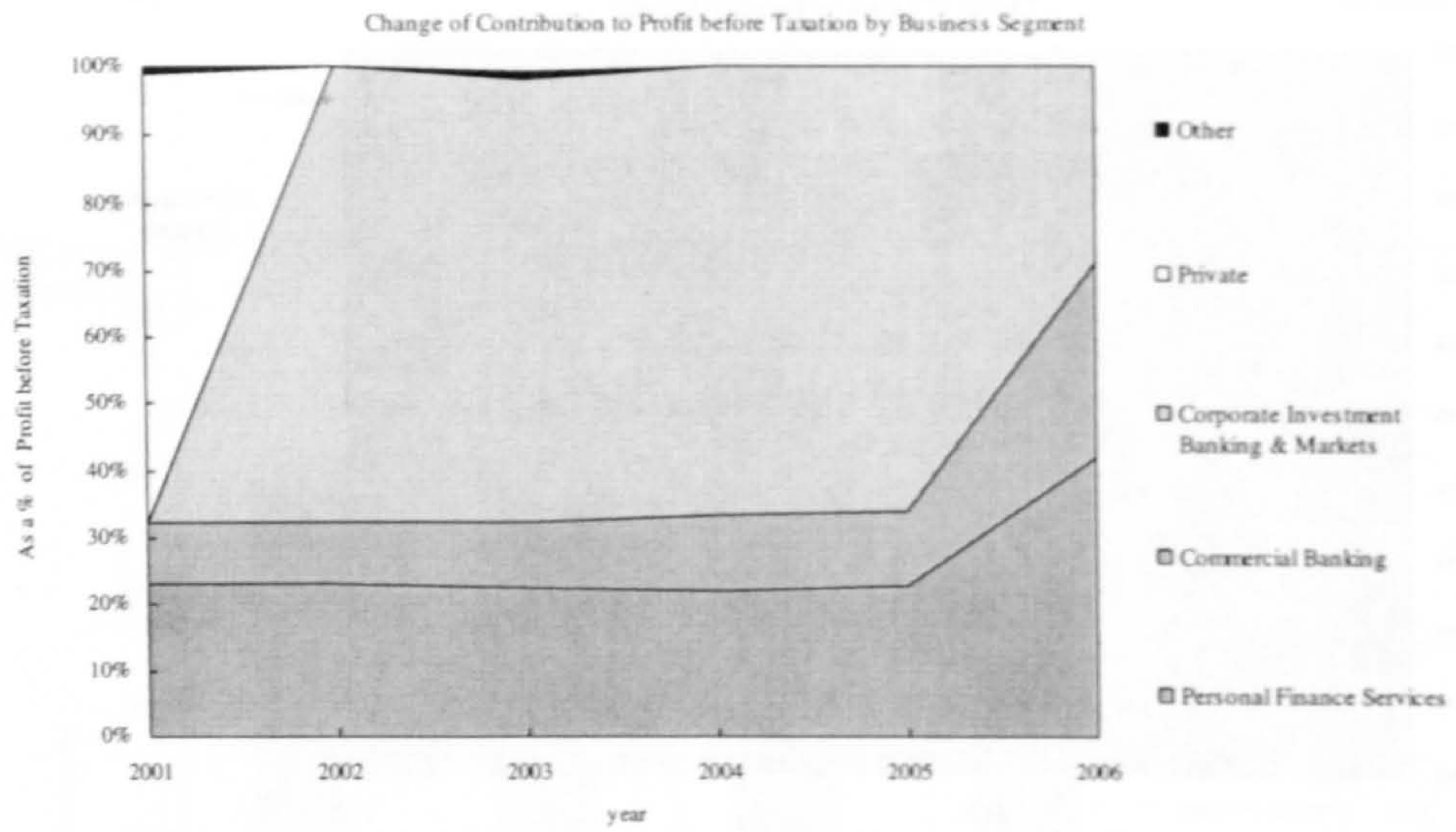
Case 9-BS2

Change of Contribution to Profit before Taxation by Business Segment



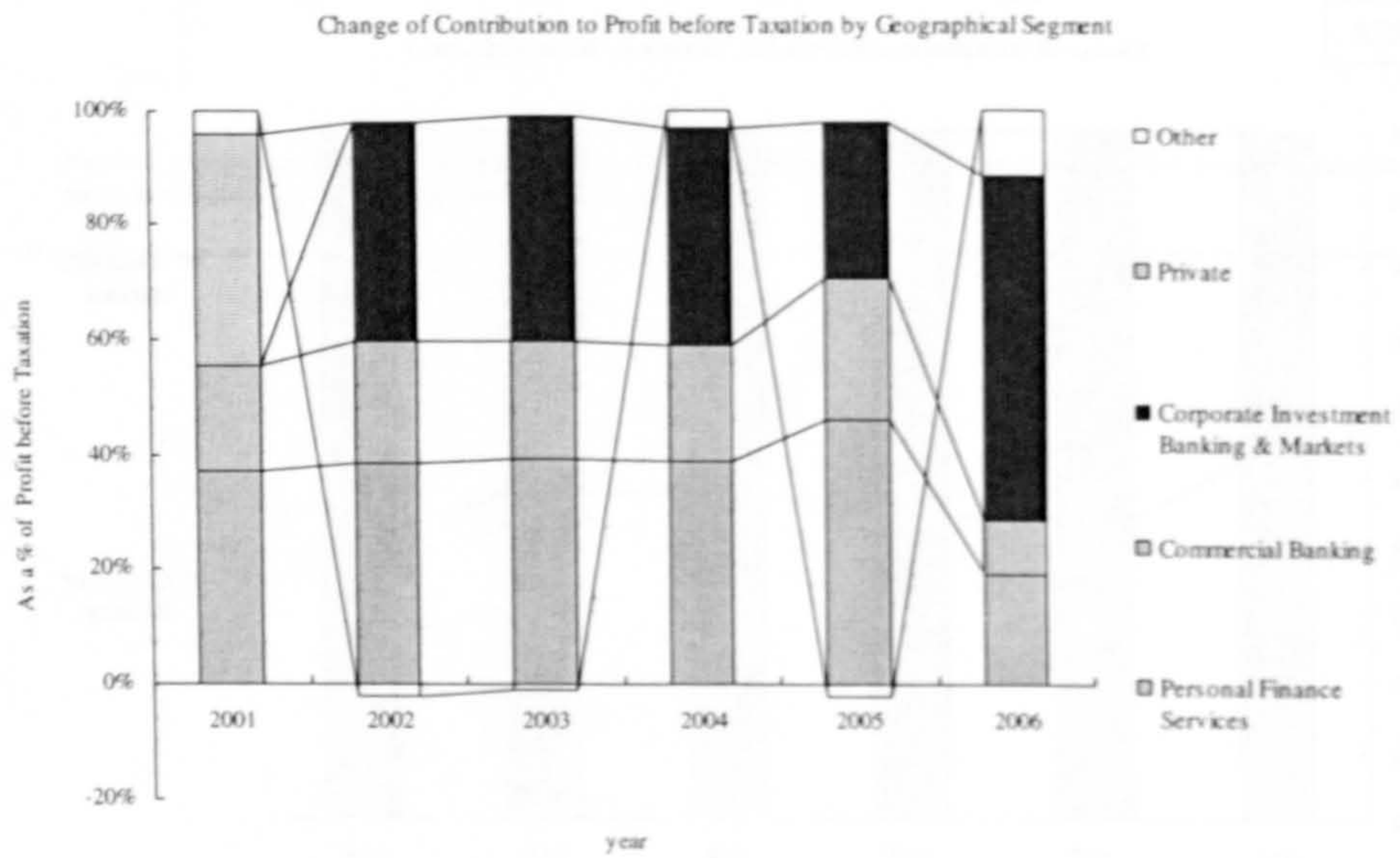
Source: Segment Report in Annual Report (2001-2006).

Case 10-BS1



Source: Segment Report (Annual Report 2001-2006).

Case 10-BS2



Source: Segment Report (Annual Report 2001-2006).